Jack Wheeler: The Meaning of the New Liberation Movements

reason

Free Minds and Free Markets

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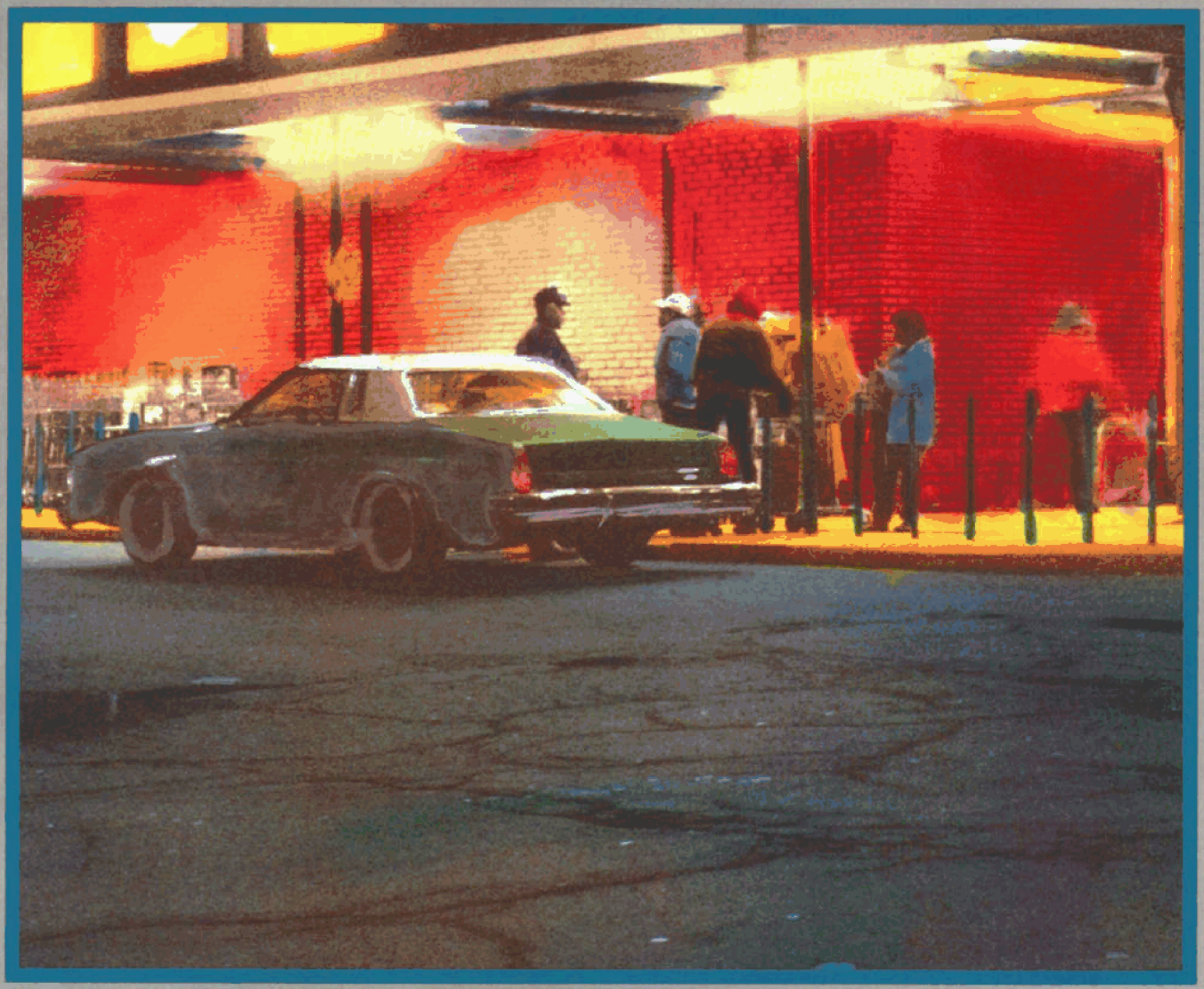

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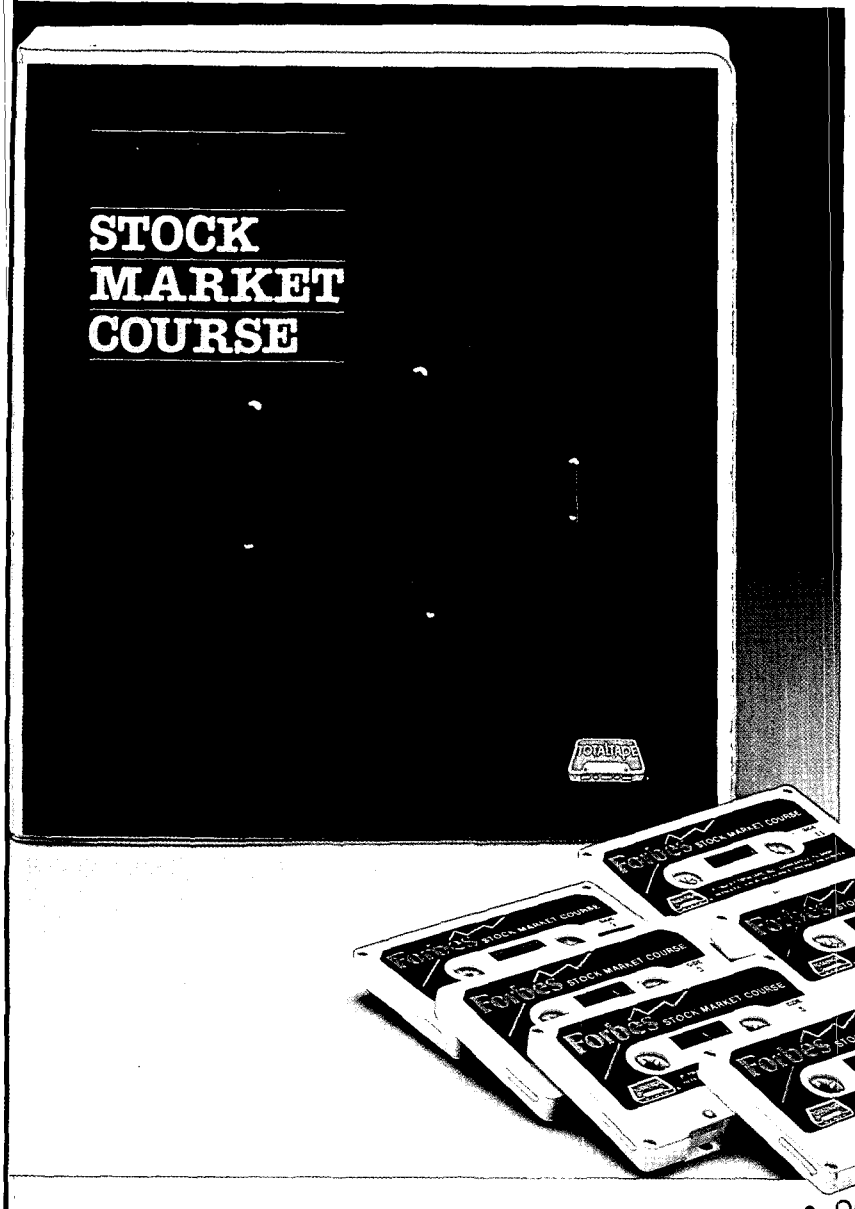

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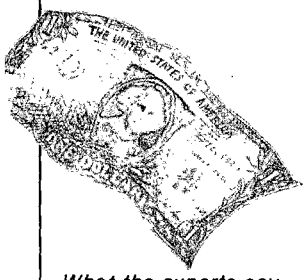

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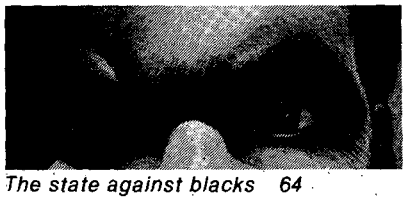

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letters

A Necessary Evil?

Milton Copulos's article on Sidney Wolfe ("It's Effective—But Is It Safe?" March) is an example of the foolish attitude that seems to pervade today's so-called new conservative. Copulos asserts that he is interested in the free market and as such is against excessive government regulation. At one point in his article he even suggests that "it didn't take a government regulation to get the makers of Tylenol to lead the industry in introducing tamper-proof packaging." He fails to mention the deaths involved or the implications of lawsuits against the company as factors that enhanced the company's performance.

History has shown us that on the whole, industry is less interested in factors of safety for workers and consumers than it is in profits. This is evidenced by the recent Union Carbide debacle in Bhopal, India, as well as Ford's Pinto caper and now GM's X-car brake problems. This is not to say that all industry is without conscience, but in today's world, with the emphasis on maximizing profits and higher productivity, it seems that the consumer is the most expendable and least important in terms of safety. And this is where Wolfe comes in. Although he probably does produce some effects which adversely affect consumers, where would the consumer be without the government and consumer protection agencies to help redress grievances? Up the creek without a paddle! Those who espouse extreme antiregulation are not true to the conservative element we want in our lives. We want only that regulation which is necessary. And unless we wish to return to the early 1900s, government regulation is a necessary evil.

Ted Skarbowski
Huntsville, TX

"Mind Your Own Business"

Consumer crusader Sidney Wolfe shares common ground with thousands of similar self-appointed mini-dictators, who constantly seek to regulate the lives of others. Seems to me the response to such incessant meddlers should be a loud and clear: "Mind your own business."

William B. Allard
Tacoma, WA

Honest Inquiry

The March issue featured two articles with surprisingly parallel morals. The article on crusader Sidney Wolfe spotlighted an intellectual who claims to be open-minded and reasonable, but who is in fact a dogmatist who refuses to accept contrary evidence. He is a media darling.

On the other hand, the article on gun control and the media ("Calling the Shots") featured the intellectual journey of sociologist James D. Wright. He started out advocating gun control, but in the face of evidence at least inconclusive and at most downright contrary, he reversed his position. He and his revised positions are shunned by the media.

Wolfe's megalomania (is there a better word for it?) refuses to allow him the intellectual honesty required of a scientist. Wright's honesty refuses to allow him the self-deception required of a demigod.

Philosopher Karl Popper has asserted that the worst thing a theoretical scientist can do is attempt to immunize his theory against falsification, because it is then worthless, practically and theoretically. This was Popper's central thesis in his criticisms of Marxism and Freudianism.

For libertarians, the moral is crucial: the best, though hardest, way to insure that libertarianism does not become dogmatic is for each and every libertarian to admit that there are positions of our philosophy that are testable; and we must be prepared to face the consequences of that testability. One of the consequences that must be accepted—if the facts warrant it—is the disproof of one or another of those theories.

(Continued on page 6)

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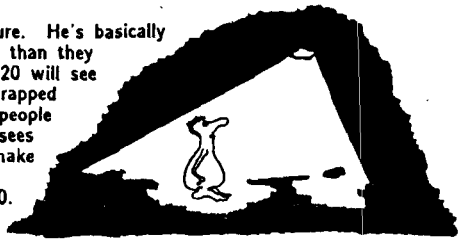

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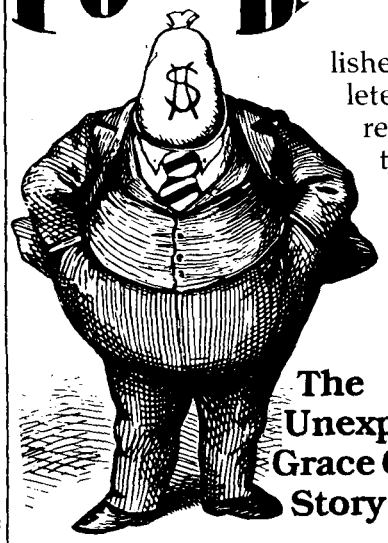

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letters

That is the honesty worthy of us: the honesty demonstrated by Wright in his acceptance of contrary evidence. Anything less is the dishonesty that shames Wolfe—if he cares about it.

Dan Karlan
Waldwick, NJ

Questions about The Refugee Question

I was astounded to read an editorial in REASON describing US immigration laws as "evil" ("Harboring Illegals," April). Though Paul Gordon begins by properly questioning the current distinctions made between political and economic refugees from Central America, he goes on to castigate the US State Department for "denying entry to people who want to find a job, work hard, and better themselves," and then to applaud those who thwart these "evil laws."

This was an emotional assault on the floodgates, if ever I read one. Are Gordon's "people" just those from Guatemala and El Salvador? Or do they include the hundreds of millions of *other* people in Latin America, Africa, and elsewhere who would also qualify as refugees from poverty? If not, why not?

Third World poverty is an evil unto itself, an evil that will not be set right with shortsighted doses of liberal guilt and irrational assaults on our frontiers. Mr. Gordon should take a long, hard look at the title of the magazine he writes for.

Lawrence Kohl
Arlington, VA

Indivisible Freedom

Congratulations on Paul Gordon's articulate defense of the sanctuary movement ("Harboring Illegals," April). It has always astounded me that the US government makes an artificial distinction between "economic" and civil freedoms—as if freedom were something you could chop up and distribute pieces of at will. As others have pointed out (including *60 Minutes*), in any case, most of these refugees merely want temporary safety and well-being. The end goal is to go home again, someday.

Christine Dorffi
Menlo Park, CA

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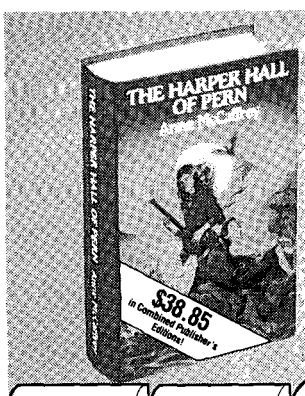

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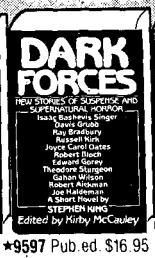

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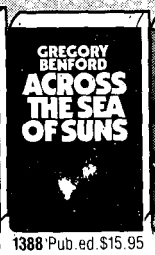

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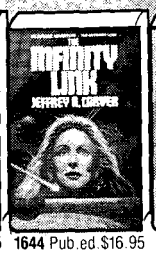

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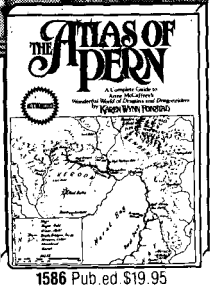

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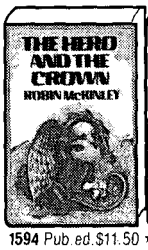

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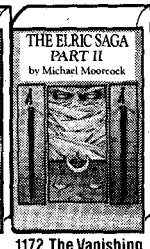

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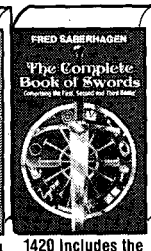

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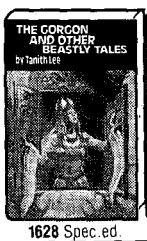

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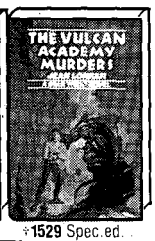

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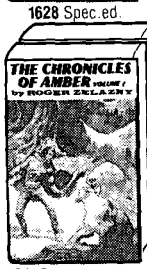

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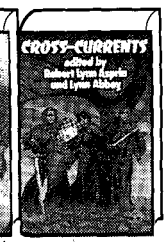
1461 The Goblin Tower; The Clocks of Iraz; The Unbeheaded King. Spec.ed.



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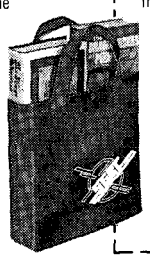

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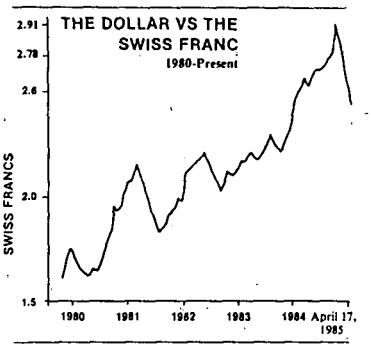

As a special service to *Reason* readers, we've put together a complete "International Opportunity" package to introduce you to the rich and rewarding world of international travel...shopping...and investment bargains. This money-saving offer brings the world to your door. And it can be yours for nothing. Let me explain.

Dear *Reason* Subscriber:

NEVER BEFORE—AND PROBABLY NEVER AGAIN—WILL THERE BE SUCH AN OPPORTUNITY TO TAKE ADVANTAGE OF OVERSEAS BARGAINS.

The chart above shows the incredible story of the dollar's rise. A European vacation that would have cost you $1,000 in 1980 will cost you only about $500 today.

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* Many overseas stock markets have been doing far better than Wall Street. In 1984, for example, eight overseas markets outperformed our own. Each share of stock represents overseas resources. THE HIGH-PRICED DOLLAR GIVES YOU A ONCE-IN-A-LIFETIME OPPORTUNITY TO INVEST OVERSEAS AT ROCK-BOTTOM PRICES. If foreign markets continue to rise, as they probably will, and the dollar declines, as it probably will, you'll profit in two ways. And the risk is very small.

* Real estate abroad is so cheap in some areas it is practically stealing to buy it. There are villas on the ocean for less than $25,000. There are magnificent manor houses for less than you would pay for a suburban ranch house in the United States. There are commercial properties that could represent the best investment you could make.

* You can fly to Europe—now—for less than $265. That is a bargain fare you will probably never see again. Never. You can get to the Caribbean for only $147. You can fly around the world—yes, around the entire world— for only $1,000. (All of these things are possible because of the record high dollar.)

That's why we put together this "International Opportunity" package: so you'll have easy, reliable access to the best the world has to offer—at once-in-a-lifetime prices.

This offer brings you:

A year's subscription to *International Living*—the publication that serves as a passport to international travel, education, work, retirement, real estate, investment, shopping...and much, much more.

* **Membership in a very special Travel Program** that guarantees you prompt and courteous service...and gives you an immediate and direct way to take advantage of the super-low air and hotel rates that are coming up every day.

* **An in-depth report on the country of your choice.**

LET ME TELL YOU MORE ABOUT *INTERNATIONAL LIVING:*

International Living has been called the "newsletter for the jet set."

Perhaps it is.

But it's more than that. It's a newsletter for anyone who wants to broaden his or her horizons, visit foreign countries, make overseas investments and ***save money.***

Yes, save money.

That's one of the major reasons we decided to start *International Living:* to help you save money on international travel, accommodations, investments and taxes.

For example, we recently learned of a technique for getting a round-trip to Poland for as little as $100. This method is not for everyone. We'll have complete details in an upcoming issue.

But I hope you won't subscribe just to save money.

International Living is intended to introduce you to a new lifestyle—a romantic, exciting lifestyle which, until recently, has been available only to the very rich.

You get up-to-the minute reporting on:

* **Real Estate**
* **Investment**
* **Travel & Shopping**
* **And more**—You'll find out how to make use of international pension and insurance plans. Right now, insurance from English companies is one of the shrewdest buys you can make.

You'll learn about **retirement havens** where you can stretch your U.S. dollars. Live like a king on a tradesman's pension. Many places also offer far more safety...and peace and quiet...than you are likely to find in the United States.

International Living covers all aspects of the new international lifestyles. From travel to taxes. From apartment hunting in Paris to currency exchange rates.

MEMBERSHIP IN THE AGORA CORPORATE TRAVEL SERVICE

And, as I said, it guarantees you better service. You see, the travel industry is becoming more competitive every day. Deregulation has meant that airlines must fight for every dollar. That means lower fares, but it often means less personal service. Smaller profit margins mean that travel agents have less time to devote to each customer.

You'll also get a membership in a very special travel program, giving you PRIORITY SERVICE—you'll be handled by the corporate division of the travel agency...not the regular consumer division.

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This travel program allows you to take advantage of overseas travel prices. We've established a special relationship with a travel agent in London. London, as you know, has been the discount airfare capital of the world for years. Even before the dollar's incredible climb, you could save as much as 70% off the price of an international air ticket by buying in London. Now, the savings can be even higher.

THE COUNTRY OF YOUR CHOICE

As part of this package you'll also receive an in-depth report on the country of your choice.

When you go overseas, what you need is a handy, portable reference guide to help you make the most of your visit. This guide should include:

* The most inexpensive, most convenient and most reliable way of getting to the country from the United States.
* Visa, money importation, passport, immunization and other legal restrictions.
* Hotels, apartments, houses and other accommodations.
* Economics, currency and investment angles.
* Shopping. You can find bargains in almost every country on earth. And now, with the dollar at record levels, those bargains are better than ever.
* Entertainment, currency, tips, local customs, taxis, telephones, car rentals, local transportation, mail service, manners, laundry, language and much, much more.

All this is now available in a series of country reports prepared by *International Living* editors. Fourteen different countries are now offered. Take your pick.

A SPECIAL OFFER—SAVE $45 OFF

In a nutshell, here's what you get when you take advantage of this special "International Opportunity" package:

1. A one-year subscription to *International Living* (240 pages annually) *value: $36*
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Total value: $84
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You save: $45

I believe this is the bargain of a lifetime. It has been put together to help you take advantage of other bargains...to help you expand your horizons...give you more options, more alternatives.

Please send in your order today.

Sincerely,

William Bonner
Publisher

P.S. This entire package could be yours for nothing. It can. If your order is received in the next two weeks, our travel agent has agreed to give you a discount on overseas travel of $25 to $100. This is a guaranteed savings—even off the cheapest fare. If you go to Europe or South America, you'll get $50 off your travel cost. If you go to the Far East you'll save $100. (That means that if you take a trip to the Far East you'll be getting this International Opportunity package for nothing...and you'll still save $61.) The Caribbean and other locations will save you $25. Choose your destination. You can take the trip anytime during the next twelve months.

I believe this offer is too good to refuse. You save $45. And if you send in your order within two weeks, the entire package could cost you nothing. What's more, *this offer is fully guaranteed.* If you like, you can send in a cancellation (after you've seen your first issue of *International Living*) and all of your money will be refunded.

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letters

Inactive Activism

It is obvious from John H. Northrup's review of my book *The Social Security Swindle—How Anyone Can Drop Out* (Feb.) that he belongs to the talk-but-do-nothing school of antigovernment activism. He states that it will not come as a surprise to REASON readers that Social Security "is the greatest fraud ever successfully sold to the American taxpayers," that it is a "pyramid scheme," the benefits of which many "will never see again," and "would be illegal if anyone but the federal government were perpetuating it."

But this fraud is not being perpetuated by the federal government so much as it is being perpetuated by those such as Northrup, who profit by teaching that it is legal and that the public is bound to pay it. As director of the Northeastern School of Accounting, Northrup not only makes a living misleading students about Social Security, he also makes a living misleading them about income taxes.

This is why I question his sincerity when he says, "If you're going to refuse to pay taxes, I say 'Bravo.' " If that were true, he would welcome any plausible basis for avoiding the tax. It would be the height of irresponsibility for him to simply encourage people (by way of a "bravo" or anything else) not to pay taxes they really owe.

The point is that my book should prove to anyone with an eighth-grade reading comprehension that for a variety of reasons no one is legally "bound" to pay this tax. My book proves that (1) no section of the Internal Revenue Code even defines the "income" presumably subject to the tax; (2) no section of the code establishes a "liability" nor any requirement that such a tax be paid or withheld; and (3) there is no such thing as a Social Security tax but rather a second "income" tax—constitutionally illegal for want of uniformity or apportionment.

Despite all this and more, Northrup still insists that the tax is legal—proving that he should stick to his debits and credits and leave books involving legal questions to those who understand them.

Irwin Schiff
Hamden, CT

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NO. 10 **SPRING 1985**

Reviewing the Reviewer

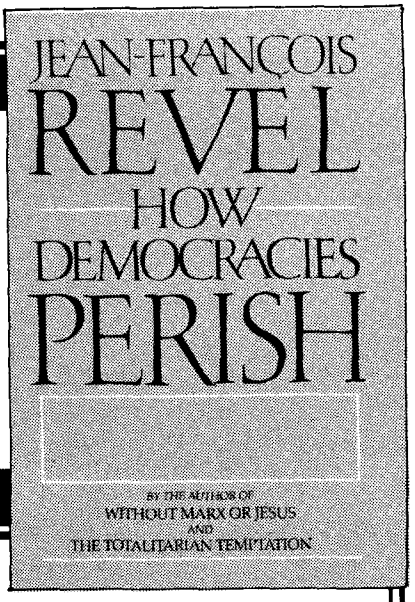
I was not only disappointed by Denis Doyle's negative review of my book *NEA: Trojan Horse in American Education* (April), but puzzled by its lack of interest in the issues raised in the book. Doyle writes that the book's "strident tone prevents it being taken seriously." And so, obviously, he didn't bother to read it—although he then proceeded to review it.

Evidence that Doyle didn't actually read the book can be found throughout the review. For example, in referring to my "provocative" chapter title "The Education Mafia," he erroneously assumed that I was referring to the NEA's current leadership. The "mafia" I was writing about is a small group of Wundtian-progressive-behaviorist educators (Dewey et al.) who took control of both public education and the NEA early in the century and proceeded to implement a whole series of radical, far-reaching reforms that have turned public education into the academic disaster and moral cesspool that it is today.

Elsewhere Doyle writes: "More to the point, the general case for private

(Continued on page 15)

This is the book Jeane Kirkpatrick quoted in her stirring address to the Republican convention



Do you remember her words? "The American people know that it is dangerous to blame ourselves for terrible problems we didn't cause. They understand, just as the distinguished French writer, Jean-Francois Revel, understands the danger of endless self-criticism and self-denigration. He wrote: 'Clearly, a civilization that feels guilty for everything it is and does will lack the energy and conviction to defend itself.' "

That, briefly, is the kernel of this classic study of Western malaise. The Kremlin is playing the liberal West like a fiddle. Revel expands his analysis with several key points:

- ☐ *Liberal democracies are by nature* flabby. If liberal intellectuals hesitate to admit this — well, the Communists are in no hurry to embarrass them.
- ☐ Soviet disinformation *seeks out* the soft spots in our liberals. And finds them, all the time.
- ☐ Revel analyzes the soft spots, shows *how* the Soviets zero in on them.
- ☐ How the Communists plot — *yes, plot* — for world domination. Why they've been winning ever since Yalta.
- ☐ Case histories: how the left-liberals paved the way for these Red victories.
- ☐ Liberal foreign policy: the intellectual roots.

But shouldn't we take comfort from the internal problems of the Soviets? Revel calls this an illusion. *One* of us, he points out, will collapse first. But we fail to exploit Communist weaknesses. They not only exploit ours, they *cause* some of them.

The fresh perspective of a European neoconservative

Revel pours out nourishing ideas about the great struggle:

- Grim scenario: two fairly simple strategic moves that would make Russia the West's master — and no nukes necessary.
- How a key Russian diplomat handled Kissinger — with success.
- Lenin's game plan: extensive quotes from the evil genius on how to conquer the West.
- 12 pet illusions about the USSR cherished by Western liberals.
- A new kind of Soviet leader? "The longer Soviet communism lasts, the more expansionist it becomes," Revel reminds those who think it's mellowing.
- Moscow's setbacks. Revel says they cheer him — but also give him pause.

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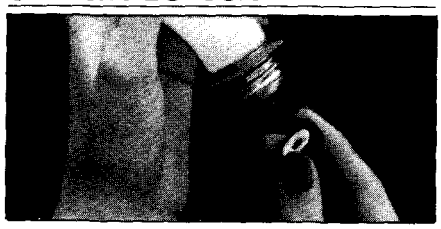
UL LIGHT BUTTON



They are familiar household conveniences now, the little half-wave rectifier buttons that attach to the bottom of light bulbs and extend their life up to 90 times, sparing you the trouble of bulb changing for years at a stretch while you save a bundle in bulb replacement costs. But the patented Screwge Bulb Saver is one of the first to be UL-listed, meaning it has survived nearly two years of strenuous independent laboratory testing and been certified safe for home and commercial use. It provides security along with savings, safe enough even for high-temperature recessed fixtures. *You'll notice that Screwge* Bulb Savers reduce light output so you may want to increase bulb wattage. We are offering 6 for **$10.00** ($2.95) #A1353 and 12 for **$19.00** ($3.95) #A1354.

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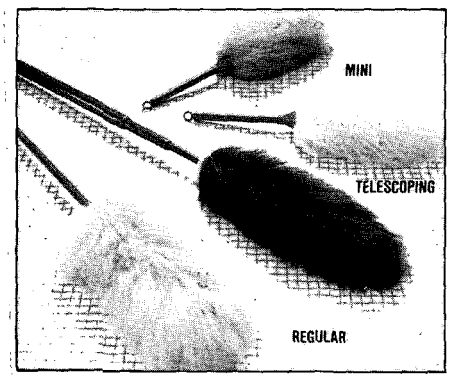
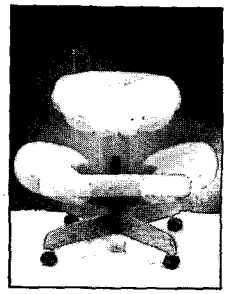
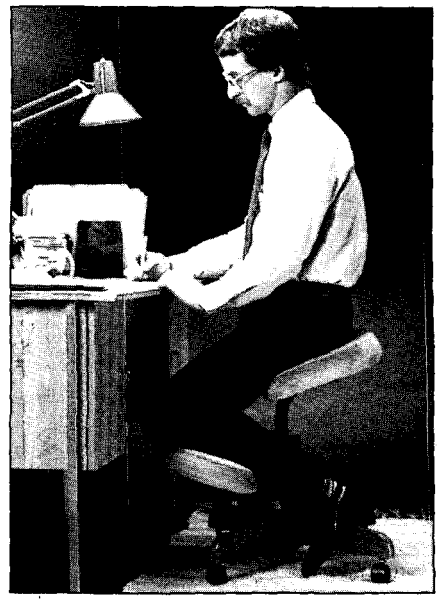


IT SWIVELS!



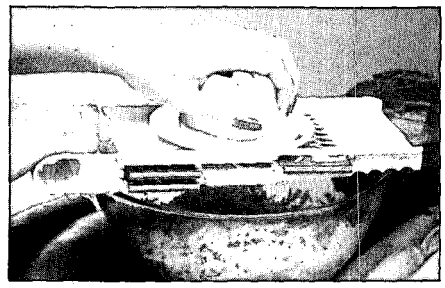
Backless "Back" Chairs have solved the age-old problem of proper seating, aligning the body on its natural axis so that sitting does not stress spine or back muscles. The redistribution of body weight is dramatically more freeing, natural, comfortable. But until now you had to give up mobility to sit this intelligently — these chairs were unidirectional and if you needed to change orientation you had the awkwardness of moving the whole chair. Finally it swivels! In its brand-new swivel incarnation, the Back Chair is suited for use at any work station, desk or table. The reinforced oak 4-star base has commercial-quality dual-track casters for easy manueverability over carpets or floors. Effortless swivel action. Manual height adjustment. Gray poly-cotton fabric over plush cushion. This is a new twist on a good idea and until you use it you don't know how relaxed and productive you can be sitting down. The price is a nice turn too, only **$69.00** ($11.95) #A1330. Minimal assembly.



FOOD FOR WOOD

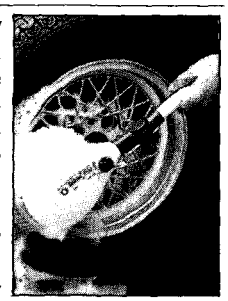
Most of the convenience waxes you buy actually dry out wood instead of nourishing it. What's the alternative? Our choice is Williamsville Wax. It is made of beeswax and lemon oil, heat-blended with other natural oils. It can be used on any type of wood, any type of finish, on paneling or kitchen cabinets as well as fine furniture. Williamsville Wax is super for restoring neglected or mistreated wood. Two 8-oz. bottles cost **$12.00** ($1.95) #A736.

GOOD NATURED GRATER

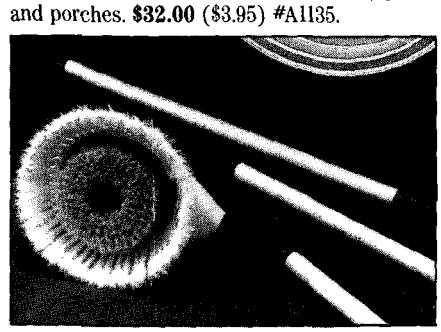


The Leifheit 4-in-1 grater is a sure-grip food holder that lets you work at top speed with no fear of flaying your fingers. Molded hand-grip gives sure control, indentations seat the grater securely atop bowls from 4½" to 9½" diameter. Blades are stainless steel, store right in grater frame, and provide choice of small and large shredders, medium grater, and ground-edge slicer. The unit itself is made of tough ABS plastic, dishwasher safe. Imported from West Germany. It's the first truly civilized grater we've seen. **$19.00** ($3.95) #A1233 each.

HIGHSPEED SCRUBBER



The Swirlon Rotary Scrubber turns an ordinary garden hose into an automatic cleaning machine. Water pressure spins the 5" inner brush for highspeed active cleaning while the 8" stationary outer brush contains the spray and sweeps away the loosened dirt. The Swirlon brush system gives much better cleaning results than the ordinary jet stream hose nozzle method. Swirlon also keeps mess to a minimum as the water stream and soap is concentrated under the brushes — no more backsplash onto the person doing the cleaning. Brushhead adjusts to any of six angles for best cleaning, contains the soap reservoir for automatic sudsing and soft split-end plastic bristles for sturdy gentleness. Water flow can be shut off with a thumb-operated valve so there's no constant running back and forth to the faucet. Two 24" extensions provide a total reach of 70" — ideal for washing soffits, siding and second story windows. Makes short work of cleaning garbage cans, lawn furniture, patios and porches. **$32.00** ($3.95) #A1135.



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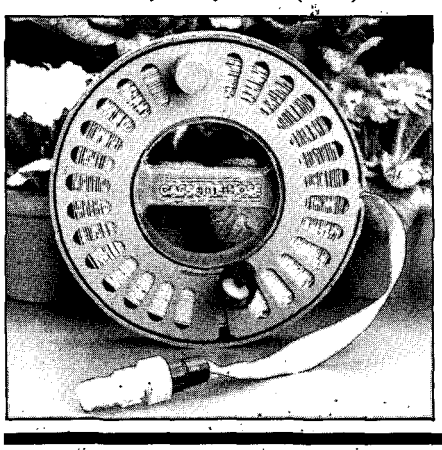

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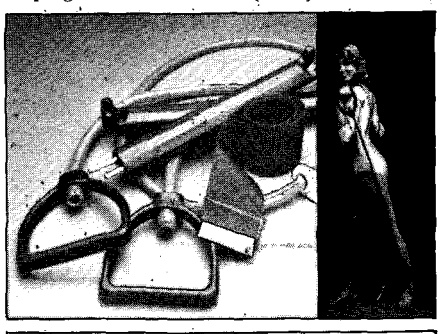

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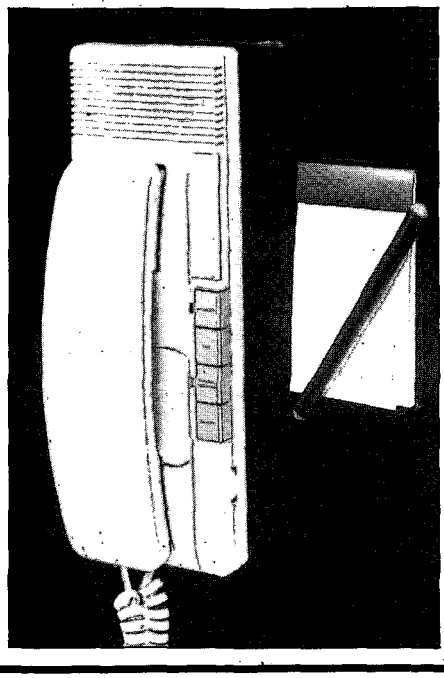

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schools and the specific case for tax credits and tuition vouchers does not and should not rest on the NEA's stands on the issues." If Doyle had bothered to read the book he would have noticed that I share Diane Ravitch's strong objection to tax credits and vouchers because they would inevitably invite government control of private schools.

Doyle also dismisses as "inflammatory" my chapter title "The Conspiracy Against Literacy," without bothering to analyze the contents of that chapter and others that prove beyond a doubt that the decline of literacy in America was deliberately planned by the educators. I know the term *conspiracy* produces uncomfortable reactions in many people. But why must a perfectly good, accurate word be avoided to please the Denis Doyles of this world?

Contrary to Doyle's view, the book's "strident tone" is not preventing readers from taking the book seriously. In fact, Dr. Sam Peavey, professor emeritus of education at the University of Louisville and a life member of the NEA, sent me his review of the book in which he writes: "*NEA: Trojan Horse in American Education* needed to be written. Now it needs to be read. . . . I can only hope that my colleagues in the educational establishment can open their minds to the challenge offered in this timely book."

Samuel L. Blumenfeld
Boston, MA

NEA Exposé—Three Cheers

A public school teacher these past 14 years, my perspective on Samuel Blumenfeld's book on the National Education Association, *NEA: Trojan Horse in American Education*, is a bit different than that of your reviewer, Denis Doyle (April). I have read numerous articles by Doyle and am almost always in complete agreement with him. In fact, I agree with most of his criticisms of the Blumenfeld book. The book *is* strident in tone, it overreaches, and its chapter headings are unnecessarily inflammatory.

Nonetheless, it is a most informative book. For example, Doyle is not a practitioner and therefore could not have lengthy, direct experience with reading instructional techniques based on both the "psycholinguistic" or "look/say" approach versus the intensive phonics approach. Therefore, he would not find the several chapters on the eventual triumph of look/say meaningful. The Blumenfeld book is worth several times the purchase price to me for those chapters alone.

And, yes, I have the highest admiration for Chester Finn and was delighted to read his article "Teacher Politics" in *Commentary*, because the article brought to the attention of conservative intellectuals an excellent summary of the leftist political agenda of the NEA in recent years. But there was nothing new in the Finn article for me. Blumenfeld, on the other hand, documents in great detail the socialist objectives of the leading lights of the public education establishment, from well before John Dewey up to the present. This *was* new to me.

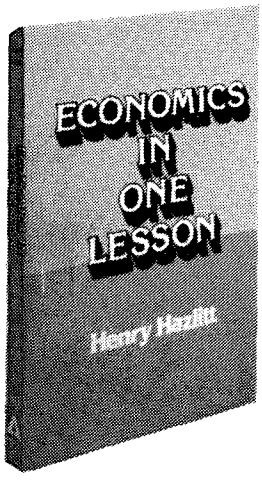
For all the faults Doyle so ably outlines, Blumenfeld's book is an extraordinary contribution.

Tom Shuford
Oyster Bay, NY

*"Its insights have guided my own thinking and I am proud to count myself as one of your students." — **Ronald Reagan***

ECONOMICS IN ONE LESSON

by Henry Hazlitt



This book has been the springboard from which millions have come to understand the basic truths about economics—and the economic fallacies responsible for inflation, unemployment, high taxes, and recession. Henry Hazlitt is the dean of American free market economists, and his clear, concise style illuminates ideas that all generations should know and appreciate.

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*"(Hazlitt) is one of the few economists in history who could really write." — **H.L. Mencken***

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editorial

Franchising Freedom

Robert W. Poole, Jr.

Although Congress has refused to authorize continued government support for the Nicaraguan Contras, hardly anyone now disputes the true nature of the Sandinista regime.

The purely domestic aspects of Sandinista totalitarianism have been relatively well reported: censorship of the few nongovernment newspapers (all broadcast media being organs of the state), massive conscription and militarization, Cuba-style neighborhood defense committees, etc. In short, the Sandinista party—like communist parties in power everywhere—is gaining control of nearly every aspect of Nicaraguan life.

Some critics in this country still maintain that what is happening in Nicaragua is purely an internal matter. But the fact is—as symbolized by Daniel Ortega's obedient visit to Moscow right after the April vote on Contra aid—that Nicaragua has become the Western hemisphere's newest client for the Soviets' "franchise for totalitarianism."

The Soviets have taken a lesson from one of America's most successful business innovations. As perfected by chains like McDonald's, franchising succeeds by offering a would-be entrepreneur a proven package deal. As a McDonald's franchisee, one is guaranteed a territory and provided with a tested facility design, access to volume purchasing, proven operating manuals, pre-packaged advertising campaigns, and even coursework at Hamburger University in Illinois.

As Jack Wheeler points out in this issue (pages 36-44), the Soviets have perfected a similar package deal and offer it to would-be power seekers. The Soviets coordinate the whole operation, drawing on their subsidiaries for various components of the package. The Cubans provide military advisors (and troops, if required). The East Germans set up an internal security system, while Czechs and Bulgarians are brought in as technical advisors for development projects. North Koreans, Libyans, and even PLO members may be called upon, as well, for specialized assignments. The Soviets even provide an equivalent of Hamburger U.—Patrice Lumumba University—to which the franchisee can send aspiring employees.

In the worldwide competition between communism and freedom, the freedom side has no equivalent of the Soviet franchising system. So while would-be totalitarians have ready access to extensive, pre-packaged assistance, would-be leaders of free societies are at a tremendous disadvantage. The *ideas* of freedom are powerful, to be sure. But as mom-and-pop hamburger stand operators have discovered, it's hard to compete with a well-financed franchise operation, even with a better product to offer.

It is understandable that many friends of freedom look to the US government to provide an alternative franchise. But is this really the job of a free society's limited government? Is it, in fact, the government's proper role to use our tax money to "bear any burden, pay any price" to battle the forces of evil all around the globe? Those of us who denounce Big Government when it embarks on other "good works"—foreign aid abroad and the welfare state at home—cannot consistently support one kind of tax-funded do-gooding while opposing others.

The only possible justification for government involvement in such battles is if doing so contributes legitimately to the defense of the United States. On this score, it seems pretty clear that US government aid to freedom fighters in Asia and Africa does not qualify. Nicaragua, on the other hand, because it is so close to our borders, is at least a grey

area. Soviet air and naval bases, should they be established in Nicaragua, would tangibly increase the Soviet military threat to this country. But such bases do not now exist, and legitimate arguments can be waged over how imminent such a threat must be before action can be taken.

There is also the practical question of the *competence* of government aid. Detailed investigative articles in the *New York Times* and the *Wall Street Journal* last winter revealed the heavy-handed ways in which the CIA waded into Nicaragua—the harbor-mining fiasco and the operations-manual gaffe being just two examples. Can we really expect a multi-billion-dollar bureaucracy to be adept at providing a pro-freedom franchise operation?

Seen in this light, the cutoff of government aid to the Contras may turn out to be a blessing in disguise. It has already stimulated a major increase in private, voluntary activity to aid the beleaguered freedom fighters. There are dozens of organizations active in these efforts, ranging from charitable groups aiding Miskito Indian refugees to others providing boots, materiel, and even volunteers to train and fight with the Contra forces.

This country has a long tradition of private, voluntary assistance to revolutionary groups. Our own revolution probably would not have succeeded without the aid of foreigners such as Lafayette and Beaumarchais, Kosciusko, and von Steuben. Mark Twain and other Americans aided the abortive 1905 Russian revolt. During World War I Eddie Rickenbacker and other American volunteers formed the Lafayette Escadrille, flying planes for France. And thousands of American leftists volunteered for the American Lincoln Brigade, which fought against the fascists in the Spanish Civil War.

A few short-sighted members of Congress, opposed to today's Contras, wish to strengthen the 1794 Neutrality Act to prohibit such activities. It would be far more consistent with both our ideals and our history to abolish this restriction on individual freedom, to permit the flourishing of private, voluntary efforts—including military assistance. Whether such a change would lead to the development of a pro-freedom, private franchising operation is not certain. But by removing the threat of prosecution, it would lead to a great expansion of creative activity in the cause of freedom. ◻

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brickbats

It may soon be illegal to blow your nose in a Missouri restaurant. Fred Williams, assistant majority leader of the Missouri House and sponsor of the proposed legislation, decided to stick his nose into everyone's business, because "a lot of people have complained to me about restaurant nose-blowers, and I have been disgusted by it myself many times." Williams says people with runny noses should run into a bathroom, or even outside the restaurant. A serious question remains, though. Sneezing won't be illegal, but how shall the courts determine where a sneeze ends and regular nose-blowing begins?

The REASON award for ingenious government planning goes to the California public bus system. You wouldn't think that bureaucrats could screw up something as simple as erecting a bus shelter for a town of 291 people, but that's just what happened. The Northern California coastal town of Trinidad has a spanking new $50,000 commuter parking lot and bus shelter. The only problem is there's no room in the lot for the bus to stop, much less turn around. So bus riders have to dash 100 yards from the shelter to the place where the bus actually stops. The purpose of the shelter was to provide protection from the elements in the rain-soaked county. Says Margie Simas, the bookkeeper at Norm's Chevron across the street from the shelter: "I watched them build it. . . . My thought at the time was, professional engineers designed this?"

Bang, bang. You're dead. In a bid to help combat crime, the president of Kenya has banned the sale and possession of toy guns in the African nation. Real guns are still available, however.

Markita Andrews is the world's best salesperson of Girl Scout cookies. The 13-year-old New Yorker sold more than 8,000 boxes in 1984. The average Girl Scout sells about 60 boxes. Markita's success attracted the attention of several corporations, which invited her to speak to their sales forces. You'd think the Girl Scouts would be thrilled.

But not so. "Selling cookies is really a fun 'girl' activity and we're working hard to keep it noncompetitive," says Bonnie McKuen, a spokeswoman for the organization. Somebody's consciousness needs to be raised—and it isn't Markita's.

Laurence Treworgy is alive because Bangor, Maine, ambulance attendants would rather save lives than comply with burdensome regulations. When Treworgy suffered a massive coronary, the private company's ambulance crew got his heart started again with a defibrillator, which delivers electric shocks to stimulate the heart. Now state officials are threatening to punish the ambulance company because of a rule that requires it to buy a second defibrillator for $10,000 or give up using the one it now has. If a service has more than 10 simultaneous calls a year, it must have at least two defibrillators if it wants a license to use even one. Treworgy is lucky the attendants didn't let the regulation stop them from saving his life.

The pro-Sandinista newspaper *El Nuevo Diario* has declared that toilet paper is unnecessary. That's a convenient position to take, since toilet paper is such a scarce commodity in Nicaragua. "The depoliticization of toilet paper. . . would strongly contribute to the relaxation of national tensions," said the newspaper in parroting the government line. The Sandinistas are really on a roll. During the recent election campaign, Sandinista candidates called the use of toothpaste an unnecessary luxury. Oh, to be a dentist in Nicaragua.

Watch where you put your hat in Middletown, New Jersey. Police Chief Joseph McCarthy had lent his chief's hat to adorn the coffin at the funeral of a former deputy chief. A couple of fun-loving police officers placed the hat inside the coffin, and it was buried along with the corpse, according to the Monmouth County prosecutor. McCarthy called the funeral director and demanded that his hat be returned. He threatened that if it wasn't back on his head by the end of the day, the funeral home would suffer in future business, says the prosecutor. So the grave was opened to pacify the bare-headed chief. The prosecutor found no ground for criminal charges, although he blasted the Middletown department for acting like children.

—Mark Edward Crane

The U.S. dollar is being replaced by a new "high-tech" currency.

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Warning: *Sometime within the next 18 months, the U.S. Treasury will start issuing* a new American currency *that will replace the traditional "greenback" dollar.*

The ostensible reason for the changes will be to deter counterfeiting.

The *real reasons* for the changes are far more devious and alarming than Treasury will admit.

Now, in this exclusive confidential report, you can learn:

- Why the counterfeiting issue is fake.
- The "high-tech" changes that are planned.
- Holograms and metallic threads – the better to trace you with.
- Why other countries are also changing their currency.
- Some simple protective steps you should start taking now.
- How *you can profit* from the coming changes.

The first public acknowledgement that a new U.S. currency was in the works occurred eighteen months ago, thanks to the efforts of Congressman Ron Paul of Texas. Paul had been alerted to the scheme by a patriotic American within the Federal Reserve System and demanded that Congress be told what was going on.

A "secret" briefing was arranged, with officials from the Treasury Department, the Secret Service, and the Federal Reserve present. Rep. Paul was shown samples of a new, colored currency. Design changes included holograms, different colors, and metallic threads imbedded in the paper.

Since then, this story has been virtually ignored by the popular press. A few "hard-money" newsletters have warned their readers that a new U.S. currency is in the works, but many of them failed to explain the *real* significance of what is happening.

This special report, **"The New High-Tech Currency"** is the result of several months of careful investigation, including interviews with Ron Paul, Treasury officials, and other authorities. For the first time, you can learn what is (and what is *not*) going to take place . . . and what you should do about it.

What Will (and Won't) Happen

It's important to stress what is *not* going to happen when the new currency is introduced. It will *not* be a 10-for-1, a 20-for-1, or any such drastic currency exchange, as some alarmists have been predicting for years. This will *not* be an occasion for a massive devaluation of the U.S. dollar.

Nor is it true that the "old" dollars will suddenly be declared worthless, invalid, or illegal. The old and new currencies will circulate side-by-side for a period of time – perhaps as long as two years.

On the other hand, it is also *not true* that these changes will be a "non-event" for investors, as some financial letterwriters have claimed. You should be aware of some extremely important facts about the coming changes:

- ***The counterfeiting issue is a fake,*** no matter what the Treasury Department and other federal officials say. The reasons for the changes are *far more serious* than any threat posed by counterfeiters.
- ***The immediate target*** of the coming currency switch is the "underground" economy – the billions of dollars in cash transactions that never get reported to the government (and don't pay taxes!).
- ***Only a small fraction*** of the underground economy is based on drugs, pornography, or prostitution – the so-called "big three" of the criminal underground.
- ***Middle-class Americans,*** trying to get a few dollars ahead, are the real backbone of the underground economy. And *they are the real target* of the new currency changes.
- ***The Trilateral Commission*** connection exists; it's no coincidence that Japan, Germany, and Britain are also making changes in their currency.
- ***There is no reason to panic,*** just because a new currency is in the works. If you have a hoard of "old" dollars hidden away, it doesn't mean that they will become worthless anytime soon.
- ***But it is* extremely *important*** that you understand what is, and is not, going to take place. Ignorance will mean some missed profit opportunities . . . and could endanger other assets.

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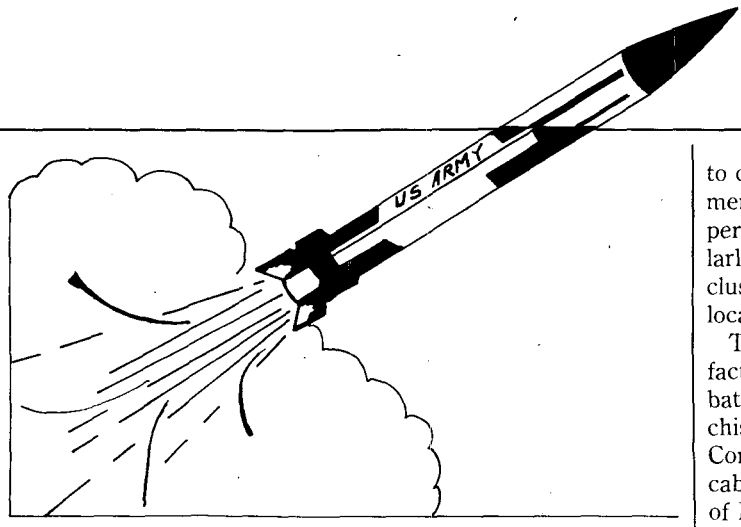


Taking the Offensive Against Defense Policy

There are at least two important considerations in the US policy of extending defense to allies like West Germany and Japan: its cost and its wisdom. And both are objects of growing skepticism, as policy analysts increasingly scrutinize US subsidization and attendant control of other nations' defense.

As for the cost, it depends on whom you talk to—but a reasonable estimate is that somewhere between one-third and one-half of all US defense expenditures ($254 billion in 1985) goes to defending Germany, Japan, etc. This, while "the defense budget" is widely perceived as out of control.

Whether the policy is wise is a more complicated matter, about which noted Fordham University law professor Ernest van den Haag recently offered a sobering analysis. In a *New York Times* op-ed piece, "More Nuclear Proliferation, Please," van den Haag observed that all the nonproliferation treaties the US government has signed has brought "little success in stopping the spread of nuclear weapons." But we *have* successfully prevented our allies (with the exception of France) from acquiring independent nuclear forces.

With regard to West Germany, van den Haag noted, this is an especially grave situation. In that country—which the Soviets would presumably attack first in invading Europe—the United States has installed and controls nuclear weapons, and this puts the accountability for using those weapons squarely on US shoulders. "The chances of a local or tactical nuclear confrontation becoming a Soviet-American strategic nuclear conflagration," van den Haag noted, "are thus greatly increased by our control of the West German nuclear defense."

"It is not in our interest to control the defense of any foreign country," van den Haag concluded. And with regard to nations like West Germany especially, "control of another people's defense can only lead to a weakening of its own defense efforts."

This latter point is perhaps nowhere more true than in the case of Japan. The Japanese spend no more than 1 percent of their gross national product on defense, while the United States spends about 6 percent of its GNP on defense, a sizable portion of which goes to defending Japan and others. The Japanese post-World War II constitution includes prohibitions (imposed by the United States via Gen. Douglas MacArthur) against rearmament. And the Japanese people seem to support those prohibitions. So the Japanese effectively have their cake and eat it, too—with American taxpayers picking up the baker's bill.

Mulling over this state of affairs recently, syndicated columnist Ben Wattenberg proposed that the US government *tax* Japan for defense. "The Japanese GNP runs about $1 trillion per year," Wattenberg noted. "If they spent an additional 5 percent per year of that on defense—that is, the same rate we spend—it would cost them an extra $50 billion." Alternatively, Wattenberg suggested, "the same goal could be accomplished as a commercial-services contract. We could offer to protect Japan from nuclear or conventional attack—for a price of $50 billion" a year.

Whether the US government should be in the foreign-defense business at all—even as a contractor—is questionable. But the growing challenge of the status quo is a welcome, if belated, development.

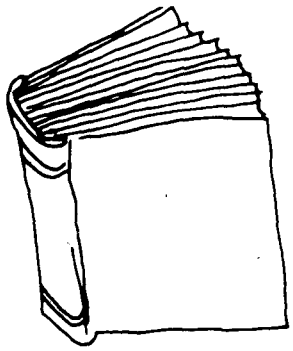
Cable TV Protected by First Amendment, Court Rules

Do cable-TV operators have First Amendment rights? Yes, answered the Ninth US Circuit Court of Apeals in March. The three-member court's unanimous opinion moves the whole issue of cable-TV regulation into a new arena, one in which cable operators stand to cast off nearly all government control—including, perhaps, even the particularly insidious practice of exclusive franchising at the local level.

The court's decision, in fact, directly issued from a battle over exclusive franchising between Preferred Communications, Inc., a cable operator, and the city of Los Angeles. Preferred wanted to set up service to a certain L.A. area but refused to participate in the city's auction to award a franchise to only one operator. Preferred sued the city, arguing that its practice violated both federal antitrust law barring restraint of trade and the firm's right to free speech. When a lower court's ruling went against Preferred, the firm appealed the decision to the Circuit Court of Appeals. The higher court upheld the city's immunity from antitrust action but affirmed the legitimacy of Preferred's First Amendment rights. The case was sent back to the lower court to be reheard on that basis.

Of L.A.'s franchise system, the appeals court said: "Allowing a procedure such as the city's would be akin to allowing the government discretion to grant a permit for the operation of newspaper vending machines located on public streets only to that newspaper that the government believes 'best' serves the community."

Writing in the *National Law Journal*, cable-law expert James Goodale noted that the ruling "could have a major impact on the constitutionality of the Cable Communications Policy Act of 1984 and on the franchising process used by cities to license cable companies." The core provision of the act, passed by



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trends

Congress last year to set a national policy on cable regulation, allows cities to grant exclusive franchises. But the appeals-court decision clearly calls this practice unconstitutional, Goodale observed. He pointed out a number of additional regulatory practices that the ruling calls into question, including, for example, the "public access" and programming requirements that many localities routinely impose on their cable franchisees.

While cities and their attorneys are, of course, upset by the ruling, the cable industry views it as a major victory that should give cable operators welcome relief from onerous regulation. "If this decision invalidates an exclusive franchise, it also invalidates other things," National Cable Television Association president James Mooney said.

The ruling, of course, gives civil libertarians something to cheer about, but consumers, too, have reason to rejoice. With the invalidation of exclusive franchises, cable-TV competition will likely bust out all over—always good news for the customer.

Put This in Your Pipe and Smoke It

We had to read through the column twice to make sure we were understanding correctly, but there it was—conservative superstar and syndicated columnist William Buckley reversing himself and calling for the legalization of drugs, including cocaine and heroin. Granted, it was not concern for individual liberty but pragmatism that moved Buckley to his new position.

The immense profitability of dealing in, say, cocaine—precisely because of its illegality—"is a powerful engine to attempt to try to stop in a free society," wrote Buckley. "If we cannot effectively prevent its insinuating its way into the country," he asked, "what is it that we can prevent? The answer, of course, is its price. The one thing that could be done, overnight, is to legalize the stuff. Exit crime, and the profits from vice."

Buckley is certainly right about the impossibility of prohibiting highly demanded

global trends

Sayonara, Telephone Monopoly

YOKOHAMA, JAPAN—Nearly a hundred years of telecommunications monopoly in Japan came to an end this spring. The Nippon Telegraph and Telephone Public Corporation was privatized as the Nippon Telegraph and Telephone Corporation on April 1. There may be little change in the corporate names, but this is an epoch-making event in the history of telecommunications in Japan.

In 1888, the Ministry of Industry (later the Ministry of Communications) was authorized to operate a telephone system after it defeated a private-operation plan promoted by the Japanese cabinet. Since then, Japanese telecommunications had been under bureaucratic management.

After World War II, reconstruction of telecommunications was slow, and the blame was placed on its governmental operation. In 1952 the three-year-old Ministry of Telecommunications was semi-privatized as the Nippon Telephone and Telephone Public Corporation (NTT), which monopolized domestic telecommunications, and the Kokusai Denshin Denwa Company (KDD), which monopolized international communications.

This was the first step toward privatization of telecommunications in Japan, but bureaucratic management was still the order of the day. The two companies set service charges higher than those in other leading nations. With ample funds from monopoly prices, they succeeded in developing one of the most efficient telecommunications systems in the world. Yet, while they were satisfied with the arrangement and protected from outside competition, they lagged behind America's technological revolution in telecommunications.

But in the last few years, change was in the air. Since 1979, the United States had demanded that Japan purchase American products for the NTT and liberalize the telecommunications business here. In order to mitigate trade frictions, the Japanese government had to consider the demand seriously. At the same time, business circles started criticizing the NTT monopoly. Finally, Prime Minister Yasuhiro Nakasone's Ad Hoc Administrative Research Council in 1982 recommended privatizing the NTT and liberalizing telecommunications.

Following the recommendation, legislation to reform the NTT was submitted to the legislature a few times. It was finally approved after modification last December and made effective April 1.

The new law stipulates that two-thirds of the company's shares be offered for public subscription within five years (the other one-third will be held by the government). The new NTT is a mammoth enterprise capitalized at one trillion yen ($4.03 billion), with 10 trillion yen ($40.3 billion) in assets and 320,000 employees.

Would-be competitors to NTT are already lining up. Five private companies—Kyocera, Ushio Electric, Secom, Sony, and Mitsubishi Trading—have established the Daini Den Den, an enterprise intended to operate as a common carrier between Tokyo and Osaka. In addition, the Keidanren, an influential federation of large companies, founded the Industrial Communications Satellite Company, which may compete with KDD in the future. The Japanese National Railways has set up Japan Telecom to study the feasibility of optical-fiber cables along its rights-of-way. And the Ministry of Construction founded Japan Highway Communications to take advantage of its highway networks. Recently, even electric companies have become interested in the common-carrier business.

Top government officials are now seeking appointment in the new NTT, hoping to secure postretirement jobs and expand the territory of the Ministry of Posts and Telecommunications (MPT). Prime Minister Nakasone has assured the opposition parties that he would limit such cases to the minimum. But even in the ostensibly private

(Continued on page 24)

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drugs in a free society. ("In other societies," he noted, "the answer is as simple as executing anybody caught smuggling or using dope.") Writing recently in the *Wall Street Journal*, Harvard University researcher Mark Kleiman detailed just how ineffective US drug-enforcement efforts are, particularly in trying to stem the production of drugs in foreign countries.

Kleiman, a former policy analyst in the Justice Department, pointed out, for example, that when US authorities eliminated Mexico as a marijuana producer by spraying Mexican pot fields with the herbicide Paraquat, "almost immediately Colombian production rose to fill the empty market niche, and U.S. marijuana markets were disrupted minimally, if at all." The fundamental fact is that "there are so many potential sources that the drugs are going to come from somewhere," Kleiman observed.

"What we have now," concluded conservative Buckley, "is a drug problem plus a crime problem plus a problem of a huge export of capital to the dope-producing countries." Legalization wouldn't solve the first problem—only educating individuals can help do that—but it would virtually eliminate the other two. And in Buckley's eyes, those gains are enough to justify legalization.

Getting the Antimonopoly Message Through

It's not news when the Postal Service monopoly delivers a letter four weeks late or when it concocts an electronic-mail scheme that loses money hand over fist while its private competitors are doing quite nicely. But it *is* news when bigwigs in the federal establishment—which is, after all, in charge of the Postal Service—are so exasperated with the mails that they seriously consider an end to its monopoly status.

What keeps the monopoly extant is an annoying 19th-century relic called the private-express statutes. But in a recent op-ed piece in the *Los Angeles Times*, Federal Trade Commission chairman James Miller III suggested doing away with the legislation altogether and letting private companies deliver first-class mail.

Of course, there's the familiar (if dubious) argument that if postal service were left to private companies, only residents of high-density urban areas would be served while rural dwellers would be neglected. Miller points out that the same argument was once deployed against proposals for airline and trucking deregulation, but he notes that since deregulation, "commuter airlines have used smaller planes to serve small communities at far lower costs"; and with many new trucking companies on the roads, "trucking service to rural areas has improved." But to mollify monopoly's powerful defenders, Miller would support a "safety net" as part of a private-express repeal package. This would provide "targeted subsidies to ensure rural [mail] delivery on an as-needed basis," similar to temporary federal air-service subsidies in the wake of airline deregulation. Miller figures that such an analagous postal subsidy would cost only about $26 million a year—a small price for doing away with one of the most impervious government monopolies around.

Miller isn't alone. There have been a few mutterings in Congress lately about repealing the private-express statutes. Rep. Ed Zschau

global trends

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Daini Den Den, the president is a former high official of MITI, and two vice-presidents are from the MPT, although its chairman does come from the private Kyocera.

It took 100 years, but the monopoly of telecommunications in Japan has finally ended.

—Toshio Murata

Uncommon Manifesto For Europe's Common Market

KALMTHOUT, BELGIUM—"It is only on the basis of an effective free market that Europe can be free, strong, sound." So begins a remarkable policy statement recently endorsed by 11 freedom-oriented organizations in each of the member countries of the European Economic Community (EEC). Called "A Consistent Policy for a Genuine Market—The Only Way Out of the EEC Crisis," the document makes the case that "free trade means higher productivity and modernization—and so a better standard of living."

The document is sympathetic to the idea of the Common Market but urges that "to achieve an effective common market, the most important task is to restructure and modernise the European economy in accordance with the market and without subsidies to agriculture, steel, etc." It calls for a series of market-oriented reforms including flexible exchange rates; abolition of state and private monopolies; an end to international restrictions within the EEC on air traffic, banks, and professional services; a freer flow of capital across EEC borders; and making trade between EEC countries and non-EEC countries "as free as possible."

The policy statement originated in the middle of last year with Dr. Wolfgang Frickhöffer of the Aktionsgemeinschaft Social Marktwirtschaft (ASM), a free-market think tank in Heidelberg. He sent a draft to other freedom-oriented organizations throughout the EEC, asking for comments with the aim of devising a document that they could all endorse.

This took a lot of work, since almost everybody wanted something a little bit different. For example, because Frickhöffer's memorandum was not 100 percent in support of individual liberty, some libertarian organizations found it difficult to accept the whole text. They discussed their objections, and after much correspondence and many telephone calls, a version was hammered out that many organizations could accept. In the end, there were still some minor points of disagreement, but it was a strong enough document that libertarians were willing to help disseminate it.

In January, the document was presented at a press conference in Brussels and sent to governments and legislators of the EEC. Now, it is up to the politicians.

—Hubert Jongen

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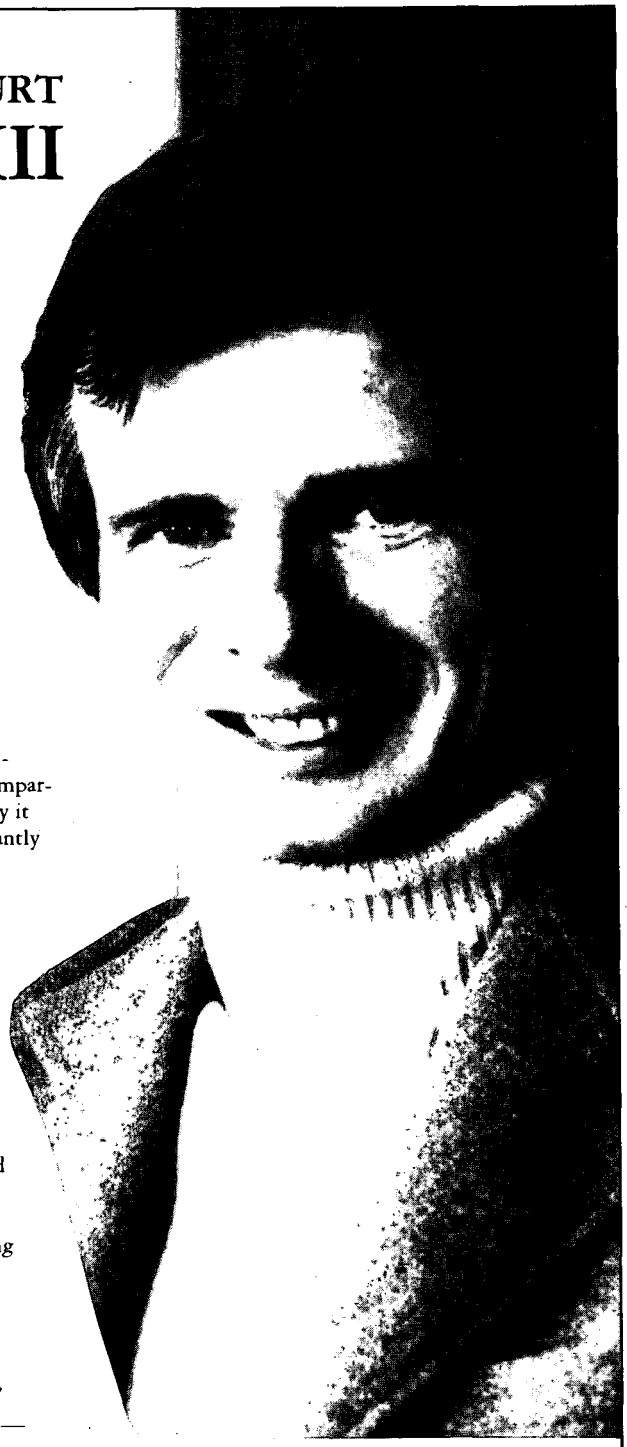

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(R-Calif.) recently introduced a bill similar to one of Rep. Phil Crane's (R-Ill.) that would do away with the statutes' restrictions on private first-class mail. And Rep. Bill Green (R-N.Y.) has reintroduced a more modest bill that would suspend the statutes in areas of the country where the Postal Service hasn't met its own minimal-performance standards, but Green would let the statutes go back into force when the Postal Service was up to snuff once again.

It's rather hypocritical that at least this year, all three bills will probably be discreetly interred in the catacombs of a House subcommittee archive. An informal poll of representatives conducted by Zschau indicated that when *they* send overnight mail—where private competition with the Postal Service is permitted—74 percent use private carriers. And there isn't a member of Congress who hasn't received mail from the private House and Senate Delivery Service which, according to Jack Shafer in the *Wall Street Journal*, delivers messages to the solons for only five cents an ounce, less than a fourth of what the Postal Service charges. (Private-express violations? Perhaps—but Clayton Todd, co-owner of the service, told Shafer, "I don't think there will be 12 jurors, with all the horror stories and poor service from the post office, that will convict me.")

The prospect for reform may be a bit brighter, curiously enough, in the belly of the beast—the Postal Service's own Board of Governors. At a board meeting in March, governor John Ryan mentioned the Green proposal for temporary suspension of the private-express statutes and called it "an interesting and intriguing idea." Later, he told the *Federal Times* that he wanted the Postal Service to "examine a relaxation of the monopoly." His view was reportedly supported by one other of the 11 governors, Peter Voss. Moreover, *Linn's Stamp News* has noted that the White House will soon be filling two vacancies on the board. It's not too much to hope that Ronald Reagan's own desultory sympathy for repeal will be shared by his new appointees.

As FTC chairman Miller wrote, "Private enterprise will get the mail delivered—just as it did in the Old West" with the Pony Express. That's true enough, and there's no telling who will be the next to accept it.

Settling Third World Debts—The Market Way

Though the so-called international debt crisis appears to have subsided, problems of considerable proportions do remain. Third World nations still owe billions on loans, primarily to US creditors, and their ability to pay them back—even with all the debt rescheduling that has recently been worked out—is less than certain. So we may not yet have heard the last of the "debt bomb" and the predictable cries for government bailouts to "solve" the problem.

Fortunately, however, there are signs suggesting that *market* solutions may already be evolving, promising perhaps to preempt the pleas for government intervention. One hopeful sign is the growing resale market for Third World debt, in which lenders sell their Third World loans at varying discounts. Recently *The Economist* reported that about $100 million worth of such loans are traded monthly, mostly in $10-million lots, and brokers quote various discount rates on them. "This week," the magazine reported in March, "loans to the Mexican government were fetching 81-82% of their face value; those to Venezuela 78-79%; to Chile 67-68%; and to Peru 60-61%."

Debtor countries can even take advantage of the resale market. "The Venezuelan government," *The Economist* noted, "has used part of its substantial reserves ($12 billion) to buy up some of its own discounted public-sector debt."

One of the various forms this practice has taken is the debt-for-equity (DFE) swap: "A foreign investor buys loans to a private company in a troubled country," *The Economist* explained, "and then swaps it with the company for shares." In what may prove an interesting twist on this mechanism, there are indications that DFE swaps may be extending beyond private companies to *government-owned* enterprises, as well. The *Wall Street Journal* recently reported that the Mexican government has floated a proposal that "would allow foreign creditor banks to exchange some of their loans for ownership in industrial enterprises owned by the Mexican government."

When Carnegie-Mellon University economist Allan Meltzer first proposed this idea several years ago, at the height of the "debt crisis," analysts effectively said: "Nah. Good idea, but politically impossible." But as *Journal* writer Charles Stabler noted, "With time, the idea may come to seem less outlandish and even preferable to the alternatives not only in Mexico but also in Brazil, Argentina, and other countries whose need for economic growth is greater than their credit."

If Meltzer's idea indeed catches on, the rewards may be at least twofold: It may ease the pressure for government bailouts for both Third World borrowers and their lenders, First World banks. And it could put considerable chunks of nationalized enterprises back into the private sector, where they do better anyway.

Entrepreneurs Towing the Line

Among the little goodies that the government has long handed out to the upper middle class—at least, those affluent enough to own their own boats—is free towing service by the Coast Guard in time of crisis, such as when yachters forget to put enough gas in the tank and get stranded. This drain on the taxpayer was suitably exposed in the Grace Commission Report in 1983. And since then, there's been a shift in Coast Guard policy.

Now, the Coast Guard does not routinely provide the nonemergency service it used to provide freely. Instead, boaters who require such service are told to call a commercial service and pay the tab. The gap left by the Coast Guard has quickly been filled by a number of private entrepreneurs providing towing service. There's even a new service for boaters very similar to what the American Automobile Association (AAA) provides motorists.

It's called Sea Tow Services, and it's based on Long Island. Boaters pay an annual fee of $95-$110, depending on how large their boats are. In exchange, Sea Tow guarantees them free towing and other nonemergency

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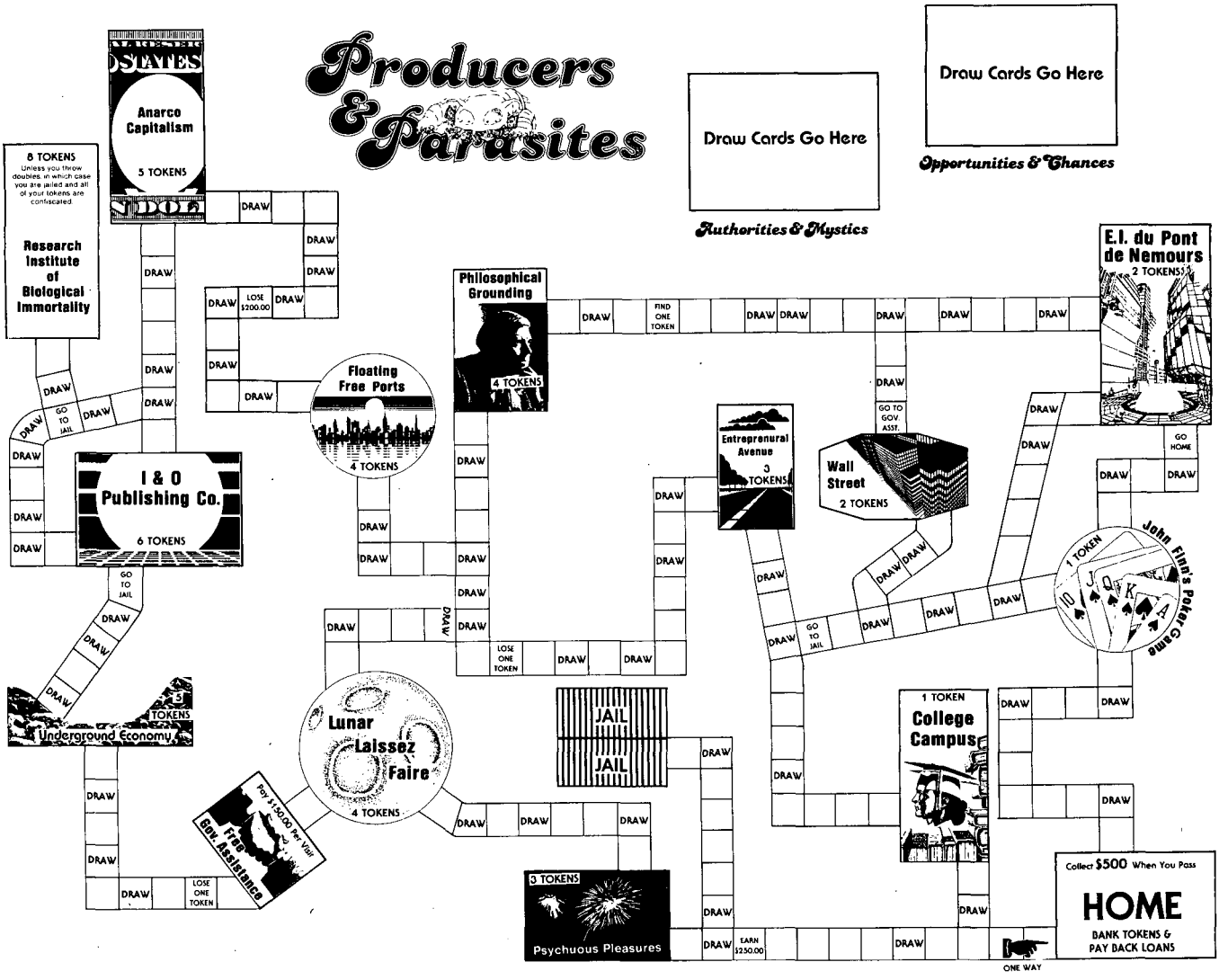

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assistance everywhere from Maine to the Carolinas, plus the Miami–Ft. Lauderdale area. As of April, Sea Tow was considering expansion to the Great Lakes, the Virgin Islands, and the Los Angeles and San Francisco Bay areas.

Sea Tow actually operates as a franchise for existing private towing companies. Each company pays $4,000 annually for the franchise in a specific area, and the company gets to keep 90 percent of the money generated by customer memberships there.

"Our business is skyrocketing beyond what anyone expected," Bruce Sweet, who owns two Sea Tow franchises on Long Island, recently told REASON. "The competition is actually good for us. After people call a competitor and get towing bills for $300 or $400, they look into signing up with Sea Tow."

The Coast Guard hasn't withdrawn completely from the nonemergency towing business. According to Coast Guard spokesperson Werner Siems, Guard policy is to defer to private towing services in areas where they're available. Even then, if darkness or bad weather makes the situation hazardous, the Guard will go to the scene to be sure that the commercial service can handle the problem. And in such cases, users' fees are not levied by the Coast Guard, which charges only for supplies it brings to boaters, such as gasoline.

Local Coast Guard commanders have some latitude in deciding which commercial services get referrals for nonemergency service. Sweet notes that in his area of the coast, a company can get approved for referrals if its equipment meets minimal quality and safety standards and its personnel either have some experience towing or have ocean-operator licenses. Sweet adds that even towers that don't qualify for Coast Guard referrals may still provide service to boaters.

Ordinarily, whenever there are calls for doing away with some government-run and taxpayer-financed service, the relevant bureaucracy will trot out some rationale for staying in business. Yet the cutback of Coast Guard perks for weekend boaters shows how private enterprise can step in and provide innovative, efficient services—and save the suffering taxpayer.

Government Spending: Now You See It, Now You Don't

The great Harry Houdini may have performed some dazzling tricks in his day, but he couldn't have matched the splendid legerdemain of Congress and the White House. In the 1970s, when budget spending levels were too high even for them, they waved their magic wand, and presto! More than $100 billion of spending disappeared from subsequent federal budgets. Vanishing rabbits turned green with envy when they heard of this wondrous "off-budget spending" trick, as it was called. Unfortunately, though, it didn't *really* make the spending disintegrate—it just "disappeared" the spending. Now, David Stockman, director of the Office of Management and Budget, wants to tear down the purple silk curtain and really send off-budget spending up in smoke.

Dismantling the props won't be easy. The way the trick has worked is that a coven of federal agencies, all of which provide guaranteed or subsidized loans to one of several special interests, sell their loans to a wizard-like creature called the Federal Financing Bank (FFB). Where does the FFB get the money to buy the loans? From the federal Treasury, of course. The FFB doesn't even need congressional approval to dip into the Treasury, but that's just part of the music. After the FFB has bought loans from the loan-granting agencies, they get to loan even more to their favorite interests—and on paper, the agencies haven't exceeded their congressional appropriations by one wooden nickel. Syndicated columnist Warren Brookes recently described it as "the perfect way for Congress to pay off political constituencies with cheap credit, without having it show up in the federal budget."

Who has benefited? Farmers, thanks to the Farmers Home Administration. The Pentagon bureaucracy and its foreign friends, via short-term financing of overseas military-equipment sales. Business-administration majors (among others), because of the college-student loan program (SLMA). Utility cooperatives, with financing from the Rural Electrification Agency. Etc.

It all looked too good to be true for the off-budget shamans in the enchanted Potomac kingdom, and maybe it was. Already, they are facing hard times because of Stockman, one of Washington's idiosyncratic connoisseurs of realism. According to columnist Brookes, the budget director has "drastically slowed" the rate at which the FFB purchases debts, from $30.3 billion per year in its heyday to only $15 billion a year currently. Stockman even wants Congress to liquidate the FFB completely in fiscal 1986.

Can the doughty young spending-slasher make the Bank of Off-Budget Horrors really and truly disappear? It may take some extraordinary incantations, but he might be able to pull it off. Stranger things have happened.

Milestones

■ *Adultery decriminalized.* US District Court judge Robert Merhige, Jr., recently struck down as unconstitutional Virginia's laws prohibiting unmarried individuals from living together and having sex. "The constitutional right of privacy," Merhige ruled, "extends to a single adult's decision whether to engage in sexual intercourse."

■ *Fifty-five unconstitutional?* Monterey County, California, municipal-court judge William Burleigh ruled recently that the state's 55-mile-per-hour speed limit is unconstitutional. In dismissing a speeding charge against driver Pamela Williams, Burleigh said the 55-mph limit is "unconstitutional because it had been enacted under federal coercion"—that is, by threatening to withdraw federal highway funds from states that didn't pass the 55-mph limit, the judge held, Congress had coerced California into passing the law.

■ *Free trade upheld.* The Supreme Court has overturned an Alabama "domestic-preference" law that imposed higher taxes on out-of-state insurance companies than on those based in state, in order to encourage in-state economic development. "If we [were to] accept the state's view here," Justice Lewis Powell thundered, "then any discriminatory tax would be valid if the state could show it reasonably was intended to benefit domestic business."

—Robert W. Poole, Jr., Paul Gordon, and Eric Martí

The underground economy is alive and well in Pittsburgh, where enterprising "jitney" drivers ignore the law to bring taxi service to poor neighborhoods.

Flouting the Law, Serving the Poor

By Glenn Garvin

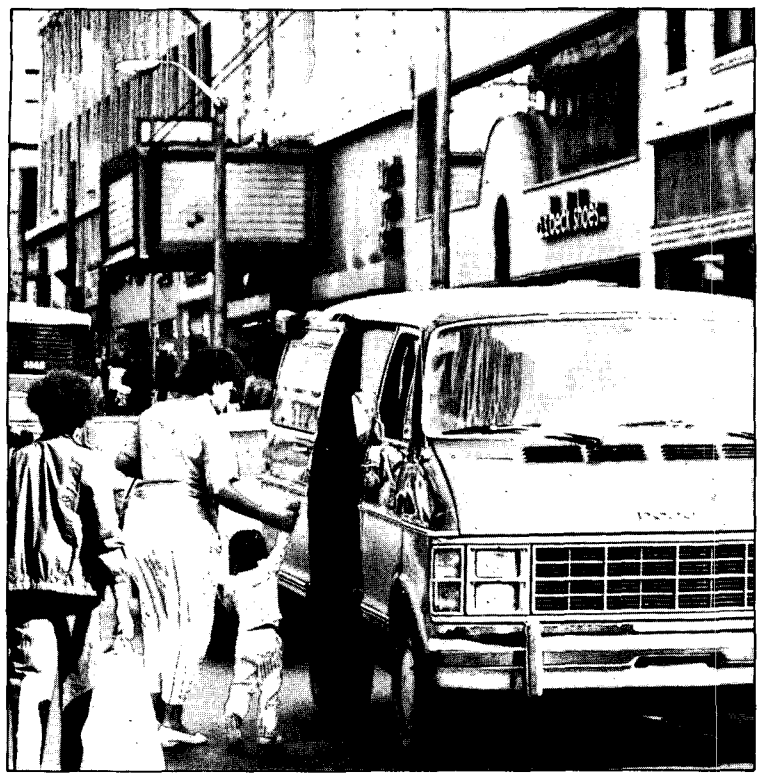
"How are you doing, Millie?" The man in the yellow Pirates T-shirt, propped indolently against a steel railing in front of the Giant Eagle store, is solicitous. "You gonna be needin' some help today?"

Millie, a wizened and frail little black woman in her seventies, nods. "Please don't let me forget the butter this time," she says to the man as they walk into the store together. Passing them on the way out is a shopping cart piled high with brown grocery bags and shrieking toddlers, guided by a harried young woman in her mid-twenties. Her expression brightens as she spots an older man with a blue golf cap.

"Hello, baby," the older man calls. "You ready to go on to the Hill now?" The question is apparently a perfunctory one; even though the woman's attention is distracted by one of the kids, who is assiduously stuffing a plastic Luke Skywalker figure down his throat, the old man begins loading her bags into the back of his big blue Plymouth.

And a few feet away, a complex and emotional negotiation is taking place. "Since *when* has Mower Street been four dollars?" a woman in a blue kerchief demands, shaking a purse in the air. "Since *always*," replies a wiry little man, leaning back out of the path of the purse but setting his jaw nonetheless. "You know

PHOTOGRAPHS•FRED P. KENDERSON



In Pittsburgh, there are probably twice as many jitneys as there are legal taxicabs.

it *always* been four dollars to go over to Homewood."

"I ain't lettin' you rob me like that, no ways," the woman says, stomping off. She stops a few feet away and begins another conversation—more softly—with one of the others who line the sidewalk in front of the Giant Eagle.

The wiry man shrugs his shoulders. There will be somebody else in a few minutes. It is Friday afternoon, grocery-shopping day in downtown Pittsburgh, and the customers are streaming up Highland Avenue to the store. Some of them are on foot, just out of the office. Others are climbing out of the Port Authority buses that stop just a couple dozen feet away. But no matter how they arrive, many of the shoppers will leave in "jitneys."

Virtually everyone in Pittsburgh takes jitneys for granted. But these illicit taxis are actually a remarkable example of entrepreneurs operating successfully in an underground economy, serving Pittsburgh's poor and minorities. The jitneys set their own rates and routes, offer a startling array of services unmatched by any of Pittsburgh's legal transportation companies, and are cheaper than their legal competitors.

Once, jitneys flourished openly (and legally) all over the United States. In the years before World War I, even comparatively small towns like Flint, Michigan, and Ashtabula, Ohio, boasted popular jitney services. Municipal governments, jealous of any competition with their city-franchised streetcar systems, nearly rubbed out jitneys in a frenzy of monopolistic legislation in 1915 and 1916, but some hardy entrepreneurs survived.

You can find their now-illegal descendants still cruising along King Drive in Chicago and hauling commuters up Boulevard East in the Jersey suburbs of New York. They ferry shoppers back and forth to grocery stores in Washington, D.C.'s Anacostia neighborhoods, refusing to submit even to the mild regulation of the local Hacker's Commission. A few places, like Atlantic City, even have legal jitneys, but there are illegal jitneys in far more places. There are jitneys in Atlanta, Los Angeles, San Diego, Buffalo, and Philadelphia. Even if they're illegal, there are probably jitneys in your town, too, if you know where to look.

But Pittsburgh is special. Pittsburgh is to jitneys as San Francisco is to cable cars. In Pittsburgh, there are probably twice as many jitneys as there are legal taxicabs. Jitney stands operate openly, sometimes even within shouting distance of cab-company offices. Grocery parking lots are jammed with jitneys. Says an official of one Pittsburgh taxicab company, "The jitneys dominate the market. The jitneys *define* the market. If they decided to cut their prices, we'd have to cut ours."

The local government and the state's Public Utilities Commission (PUC), both of which regulate taxis, don't wink at jitneys so much as they stare. At the Pittsburgh Police Department's Second Precinct headquarters, in the middle of a nest of black honky-tonks and joints known as the Hill, it is not uncommon for officers to summon a jitney to take a drunk home.

A PUC official recently noted that the commission's penalty for illegal jitneys, when it is imposed, is usually a fine of $100 and revocation of the state registration for the vehicle involved. However, he admitted that enforcement in Pittsburgh is "based largely on any complaints we receive," and speculated that the PUC looks at "less than 50" cases per year. Otto Davis, a Carnegie-Mellon University professor who has studied jitneys extensively, thinks the last real effort to crack down on jitneys may have been in the early 1960s, and no one else seems to recall any systematic effort since.

Mass transit is still officially a creature of the government in Pittsburgh, just as it has been almost everywhere else in the country since the advent of the electric streetcar in 1888. Generally, streetcars, buses, and subways either have been operated by cities or have enjoyed monopoly franchises shielding them from the free market. And with a few (but growing number of) exceptions, taxi companies are similar monopolies or are regulated so sharply that they might as

well be. The US public-transportation system has been in place so long that hardly anyone questions it anymore.

But Pittsburgh's experience with the jitneys proves that there's another way. "What it proves, I think," says Otto Davis, "is that—at least under some circumstances—a free market in transportation *works*."

A $2.60 cab fare costs $2.00 in a jitney, and the cab driver expects a tip—unheard of among jitneys.

It's a lazy Saturday afternoon in Pittsburgh's Homewood district, a working-class black neighborhood. Morning marketing is over, there are no ball games or concerts today, and Homewood—along with the rest of the city—is quiet. In theory, it should be an easy time to call one of the city's 350 legal taxicabs. But don't bother calling a cab to Homewood, because it probably won't come.

"Yeah, I ain't surprised you couldn't get one," the jitney driver agrees amiably. "They don't like to come over here. Maybe part of it is because folks in this neighborhood ain't got a lot of money. And partly it's the crime. Especially at night, a cab driver don't like to come over here 'cause he's afraid he'll get robbed."

He laughs. "Hell, when *I* was driving for Yellow Cab *I* didn't like to come over my ownself at night. Nobody likes to get robbed." He pauses while he turns his big white Dodge. "And maybe," he continues after a moment, "maybe it's 'cause we're black over here. Whatever it is, it don't matter. You got a jitney, didn't you?"

This one came from a jitney stand. There are at least 44 (and probably many more) of these stands scattered through central and north Pittsburgh. Some of them are located in empty filling stations, some in small storefronts, some in garages or even apartments. They usually boast a sign that says "car service" followed by a telephone number. The drivers pay the station operator $10-20 a week. In return, he prints business cards and places them around the neighborhood—many if not most pay phones in black areas of the city have the cards taped to their front—and he acts as a dispatcher, taking phone calls and directing the drivers to customers who need a ride. Some customers call, others walk in.

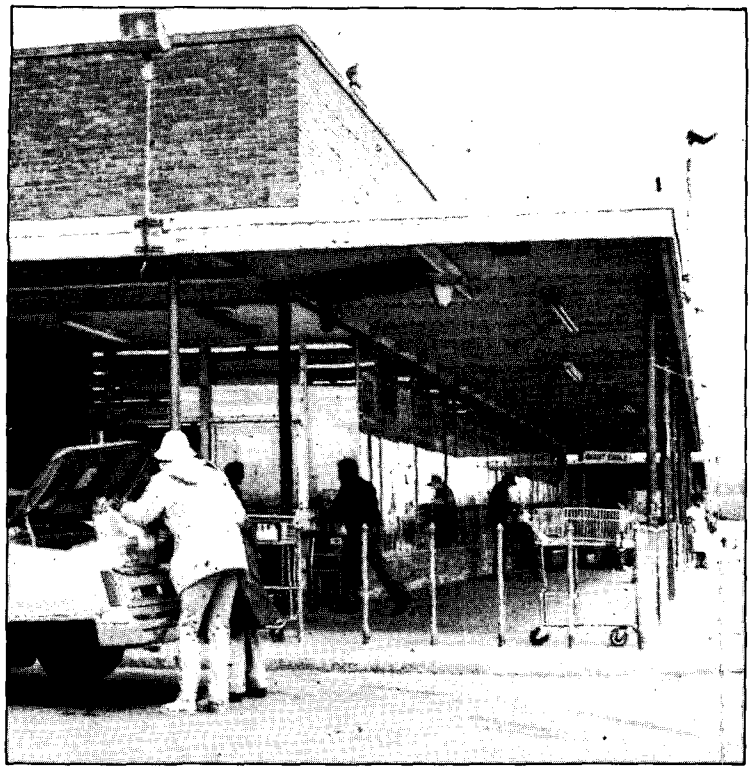
"Mostly we get folks from the neighborhood," says this jitney driver, who says his name is Frank. "I'll take folks anywhere, but mostly they just want to go shopping around here, or maybe go to an office downtown."

Frank does not know he is talking to a reporter—he's just making small talk with a garrulous customer. Although officials have shown little inclination to bother the jitney drivers, they are all very aware that what they are doing is illegal. An open request for information is inevitably met with a blank stare and a mumbled, "I don't know nothin' about no car service"—in some cases, even as customers are getting into the car.

Frank is a typical jitney driver—60 years old, semi-retired, and living on a small pension that he supplements with his jitney earnings. "I used to drive a cab," he says. "But, hell, they wanted $50 a day for me to rent the damn thing from the company. How much money you think I had left over at the end of the day after I paid that $50? The money I make now, it ain't a lot. But it's a damn sight more than I was making from the cab company."

On this Saturday afternoon, there are six or seven drivers hanging around in the small brick building that is Frank's jitney station. Their cars are parked on the street outside, everything from big Lincolns to little Datsuns, although the bigger cars seem to predominate. Frank says there are 22 drivers who use the station. "We ain't the biggest, either," he explains. "There's one a few blocks over that has 45 drivers. There's at least 180 jitneys working within a dozen blocks of here—*at least*." He chuckles. "The jitneys are taking over this town."

So it seems. There are four varieties of jitney driver in Pittsburgh. There are the station drivers, like Frank, who are in many ways the most amazing part of the jitney phenomenon. In a business that is supposed to be at least semi-clandestine, the clearly-marked jitney stations almost cry out for official retribution. But none seems to be forthcoming.



Jitney drivers will deliver a package, drop off the laundry, escort a child—even give rides on credit.

The other kinds of jitneys are not so screamingly obvious, although any visitor to Pittsburgh can learn to spot them after about an hour in the city. In the downtown area, there are drivers who duplicate Port Authority bus routes; they pull up at certain intersections and honk to call the customers. Generally they charge the same rate as the buses, but they are willing to make short side-trips from the bus routes to deliver passengers to their doors. These are called "line-haul" jitneys.

Yet other jitney drivers work the airport and the bus station. At the airport, the jitneys seem to coexist peacefully with legal taxicabs and limousines. The cabdrivers will even refer customers to a jitney when some specialized form of service is required—say, a customer who wants to stop at a bank en route to his final destination.

At the bus station, things are somewhat rockier. The taxi drivers are prohibited from entering the station to solicit customers, but the outlaw jitneys scoff at such restrictions. They go into the bus station all the time, getting first crack at fares. There have been some fist fights as a result, and it is darkly whispered among the taxi drivers that a cabbie who was charged with rape a couple of years ago was somehow set up by the jitney drivers.

The final group of jitneys works the supermarkets. These men (in all Pittsburgh jitney lore and legend, there are no reports of any female drivers) not only provide transportation, they offer a sort of Boy-Scout-for-hire service. They help the frail and elderly with shopping, they will walk the cart through the checkout line for a busy customer who has to run across the street, and they load and unload groceries from the car. Like the jitney-stand drivers, they tend to be community types. They call greetings as customers approach the store, exchange gossip and pleasantries, and even act as a neighborhood billboard. At a grocery store on East Liberty Circle, I watched an elderly jitney driver hail a passing woman. "Norma," he called, "your mama's inside the store right now, and she'd like some help with the shopping." Norma smiled, waved, and headed inside. Store managers don't like to acknowledge the jitneys—"I'm not sure what you're talking about"—but they obviously tolerate, if not actually encourage, their presence.

Like Frank, most of the drivers are men between 55 and 75 years old who work four to six days a week. "They sit down there at the supermarkets and the jitney stands, and they talk to each other, shoot the breeze," says Carnegie-Mellon's Davis, who—with Norman Johnson of Florida A&M—conducted a four-year study of jitneys published in the *Journal of Contemporary Studies* last year. "It's both a social thing and an economic thing."

Davis's study showed that 60 percent of the drivers were older and disabled or retired. He also identified two other groups of drivers: middle-aged men who drive part-time to supplement a regular job or during seasonal unemployment, and younger men in their 20s and early 30s who drive jitneys at night while searching for work during the day.

With the exception of the "line-haul" jitneys (the ones that run along bus routes), virtually all the drivers charge by a system of zone fees. Each driver—or group of drivers, in the case of the stations—is free to work out whatever fare schedule he wants, but most jitneys seem to charge roughly the same rates. ("This is a good example of something that most people seem to think requires the government: rate-setting," says Davis. "But these guys set it up themselves, and it seems to work fine.") At jitney stands, all the drivers must abide by the group rate, which is printed and posted, and there seems to be little gouging.

Customer satisfaction seems high. "Yeah, you don't want somebody complaining to the man who runs the station," one jitney driver said. "He'll boot you out. Folks won't come to a jitney stand if they think the drivers are gonna rip them off." When most of the customers are drawn from the neighborhood, the likelihood of complaint is high if a driver makes a misstep.

On the other hand, the jitney driver is truly his own boss and has considerable license to deal with obnoxious customers as he sees fit. I shared a jitney with a woman who was complaining loudly

about the car, the upholstery, and the fare, which the driver had told her would be three dollars. She sat in the back, and I was in the front. When we got to my destination, about a block from hers, I started to hand the driver three dollars. He silently signalled me two instead. "I driven her before," he whispered as I got out of the car.

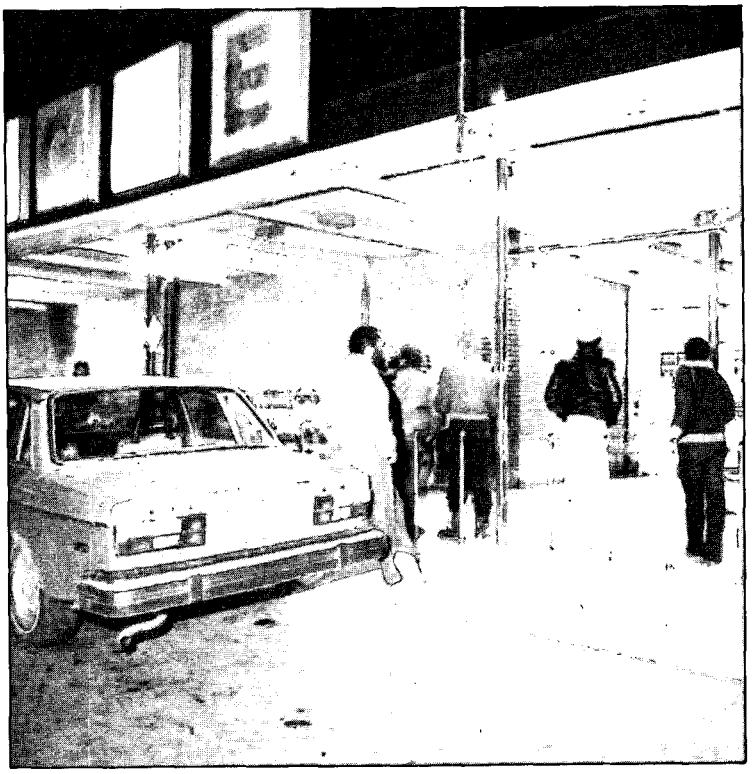
Although the officials who operate the Port Authority buses scream loud, hard, and often about the jitneys in press interviews and public statements, the illegal taxis seem to compete most directly with Pittsburgh's two citywide cab companies. Yet on paper, the law gives the cab companies formidable protection from almost any competition.

Those who dare to enter the taxi market legally are jumping head first into a regulatory thicket. They must apply for a taxi license, called "rates," to the state Public Utilities Commission. According to a commission official, the PUC holds a hearing at which existing companies may challenge the application, then the commission grants rates only if it determines that doing so is "in the public interest." Should the commission grant rates, the lucky applicants must pay one percent of their gross income in taxes to the PUC every year.

There's no official limit on the number of legal cabs, but rates are not handed out frequently. The last serious attempt to get rates from the PUC was in the mid-1970s. The company got rates—but once it began service, it couldn't beat the competition of the jitneys. Indeed, the only legal citywide competition for Yellow is the little People's Cab Company, a 25-car fleet operated by Carnegie-Mellon's Center for Entrepreneurial Development. Although People's does turn a small profit, it is run mostly for experimental purposes.

Can a solitary individual with one car apply for rates? Technically, yes—but the PUC official observed, "I don't recall any case where that's happened. With the need for filing fees, hearings, and attorneys, it's probably not worth it." So for an ordinary entrepreneur who wants to make an honest living by transporting people, the underground economy is the only sensible option available—and a lot of people take that option.

From the customer's standpoint, jitneys stand up well in comparison with Yellow Cab. It operates about 350 vehicles, although drivers say the company's dilapidated cabs break down so frequently that there are rarely more than 200 on the street at any given time.



"The jitneys dominate the market," says a taxi-company official. "They define *the market."*

The jitneys, by almost all accounts, do a better job than the cabs. Jitney drivers are friendlier, more helpful, and more willing to honor a request for unusual service. Jitney drivers will deliver a package, drop off the laundry, pick up a bottle of liquor and bring it by the house, escort a child, and occasionally even carry a customer in return for a promise of payment later in the week. And unquestionably, the jitneys are cheaper. Generally speaking, a $2.60 cab ride will cost $2.00 in a jitney. Moreover, the cab driver will expect a tip, which is unheard of in the jitney trade.

The jitneys have several economic advantages over the taxis, almost all of them related to regulation. The cabbies must buy a chauffeur's license; the jitneys don't do it. The cabbies' revenues are taxed by the PUC; the jitneys' revenues are not. Cabbies are not allowed to assemble groups of passengers headed in the same direction; jitneys do it all the time, especially those that operate out of grocery stores. (This is an advantage especially during rush hour, when heavy traffic keeps a vehicle from making as many trips as it can at other times of the day.)

The cabbies must install meters, which cost $300-500; a jitney's zone-fare card costs a nickel, if that. The cabs, in theory, undergo rigorous safety inspections, which cost time and money; the jitneys don't. (There is good reason to believe, however, that the cab inspections are not all they're cracked up to be. Last year *Pittsburgh Magazine* took a randomly selected Yellow Cab to an inspection station. A mechanic found 18 different violations serious enough to fail the cab and keep it off the road, including

cracked brake pads and exhaust leakage into the car. The mechanic tried to talk the cabbie out of driving home. He pleaded, "I wouldn't drive to the pumps in this cab.")

The jitneys do have one major advantage that is arguably unfair—they simply rely on their ordinary auto insurance, since the insurance company has no way of knowing that a driver operates a jitney. The cab companies, on the other hand, pay commercial rates.

"Of course they can operate cheaper than we do," growls an angry Dwight Baumann, president of People's Cab, smacking the table with his fist. "I pay $2,400 a year per car for insurance. They pay $400. *We* could operate cheaper than we do if you knock that much off our rates."

He continues, "They compete directly with us, and they compete for the riders that all cab drivers want—they compete for the regular, the guy who has to go someplace at the same time every day," he says. "I wish there was something we could do about them."

Al Hayes, the vice-president of Yellow Cab, is no more sympathetic to the jitneys. "There's no control on them—no taxes, no anything," he complains. "Anyone who buys a drag-along car is in business with no expenses except for gasoline." Asked how much jitneys are cutting into Yellow Cab's business, he responds, "We're getting about 60 to 70 percent of the business we had 10 years ago. Not all of the decline is because of jitneys, but my best guess is that they're taking about 10 percent of the business we had."

Baumann of People's Cab once tried to do something about the situation. He offered jitney drivers special deals if they'd join his company. His theory was that they would help People's Cab by bringing their current business along, and he could help them by offering radio dispatch service along with group insurance and other conventional business perks.

It didn't work. "They didn't want to pay income tax," he recalls. But, having failed to entice the jitneys into the system, Baumann thinks it's useless to try to crack down on them. "That's been done many times," he says. "It just doesn't get anywhere. If you tried to do the same thing with the rest of the underground economy—if you said, 'Let's regulate the cleaning ladies,' for instance—you'd get the same results."

Yellow Cab's Hayes, in contrast, blames the PUC for the proliferation of jitneys. He says that Yellow hasn't lobbied heavily for a crackdown on jitneys because "we don't have the time nor the money to be the policeman. We feel that's the job of the Utilities Commission, and they could care less."

By almost all accounts, jitneys do a better job than the cabs.

Just how profitable are the jitneys? Davis, using data assembled by graduate students who actually drove jitneys for a summer, calculated that the average jitney driver makes 3,900 trips a year, bringing in $7,800. After accounting for the costs of gasoline, oil, and other operating expenses, and allowing for depreciation, jitney jobs suddenly don't seem very attractive. The average driver, by those calculations, makes only about $5,000 a year.

But the jitney drivers don't see it that way. "Look, I gotta have a car anyway, right?" said one. "The only thing I'm spending extra to be a jitney is for gasoline." Given that most of the drivers are just trying to supplement an income or to keep their heads above water while looking for other work, jitneys seem like a sensible economic venture. "All you got to have," advised one driver, "is a car and a little bit of knowledge about Pittsburgh."

The inevitable question: if jitneys are such a good deal for drivers and passengers alike, why don't we have more of them? And the answer is, because city governments are greedy. It's certainly not a lack of demand for jitneys, if history is any indication.

The first jitney driver was a Los Angeles man named L. P. Draper. On July 1, 1914, he picked up a passenger in his Model T Ford and drove him a mile or so in return for a nickel. ("Jitney" apparently derives from the French word *jeton*, or token.) Draper seemed to have hit on the proverbial idea whose time had come. In less than a year, there were 62,000 jitneys, operating from San Diego to Portland, Maine. Jitney operators began forming associations, and soon there was even a trade publication, *The Jitney Bus*.

Those early jitneys had but one business strategy, and that was to steal customers who were lined up to ride on electric streetcars. Like the line-haul jitneys in Pittsburgh today who work the Port Authority bus routes, the original jitneys traveled streetcar lines almost exclusively. But customers crowded into them because they were so much faster—they careened about the streets at a reckless 15 miles per hour, twice the speed of the streetcars—and because they could swing off the streetcar route and deliver a passenger to his door. They also lent a touch of excitement to city life; jitneys were constantly smacking into one another as they sped to the curb, trying to pick off customers.

The jitneys specialized in short hauls of a mile or two, and those were precisely the customers the streetcars could not afford to lose. The streetcars were charging everybody a nickel and using the revenues from the short trips to subsidize passengers who went longer distances. (Municipal planners, in those days, thought that was a great idea. They favored "urban decentralization." Municipal planners nowadays refer to that same concept as "urban sprawl." They say mass transit helps to *fight* it, which just goes to show the miraculous metamorphosis in mass transit over the last 60 years.)

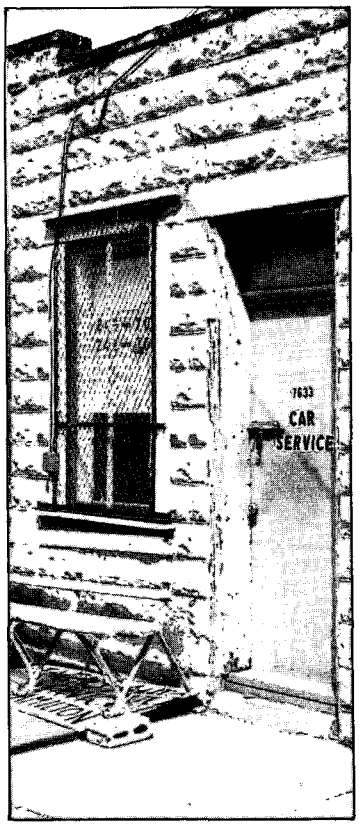
The jitneys were so spectacularly successful in making off with streetcar customers that within five months of L. P. Draper's first foray, the Los Angeles streetcar system was losing so much revenue that it had to lay off 84 employees.

Municipal government fought off a collective wave of nausea at this. They handed out "franchises"—that is, monopolies—to the streetcars in return for road improvements and a cut of the proceeds. And after an unproductive spate of name-calling—the *Electric Railway Journal* sometimes called jitneys "a menace," on other occasions "a malignant growth," and then, when the editor was *really* mad, "this Frankenstein of transportation"—the streetcar companies simply got their pals at City Hall to do some creative legislating. The most common tactic was to impose outlandish fees and bonding requirements on the jitneys.

The cities did not limit themselves to these strategies. They also issued route restrictions and onerous safety requirements. In some cities where anti-jitney laws had to be put to the voters, the streetcar companies were unusually resourceful. In Los Angeles, the streetcar company simply called a holiday on election day and then ordered its employees to shuttle anti-jitney voters to the polls in their autos. Lest there be any doubt about the intent of these new laws and regulations, the *Electric Railway Journal* gleefully discussed new ways "of exterminating the jitney under the guise of regulating it."

The efforts of the city governments and their streetcar quislings were spectacularly successful. In New Orleans, 300 jitneys went out of business in a single day when the city began requiring a $5,000 bond. In Los Angeles, where it all began, the number of jitneys dropped from 1,000 in 1916 to 32 in 1917. By the end of World War I, the jitneys were nearly all gone. Perhaps they derived some posthumous satisfaction from the fact that the streetcar companies could not save themselves through this villainy. The companies began to go bust in the mid-1920s and were soon overrun by bus lines.

Buses, in turn, got into serious financial trouble in the 1950s. They were frequently taken over by the city governments themselves, which soon began to lobby for federal subsidies to keep them afloat. In the 1960s, the federal government began paying for most of the capital improvements to bus systems, and during the next decade, the feds began chipping in toward operating deficits as well. Fares on mass-transit—both rail and bus—now cover less than half of the operating costs of such systems.



There are probably jitneys in your town, too, if you know where to look.

One problem with fixed-route transportation systems is that none of them—not even the new and fabulously expensive subway systems in Washington and San Francisco—are as convenient, flexible, or adaptable to individual needs as the automobile. Taxicabs carry as many passengers as mass transit does in the United States. But the ubiquitous overregulation of taxis creates problems in that market, as Pittsburgh and other cities have discovered.

Organizations as diverse as the Urban Institute, the American Enterprise Institute, and the US Department of Transportation have all recognized the stupidity—if not necessarily the injustice—of outlawing jitneys. Said a Department of Transportation report in 1972: "The present regulatory environment in urban public transportation, including obsolete franchise limitations and market-entry barriers for taxicabs and jitneys, restricts the efficient operation of the urban transportation system. The removal of such regulatory constraints is likely to lead to more efficient use of the transportation system and increase the options available to its users."

Although the DOT report didn't say so, the people who are most vulnerable to inefficient urban transportation systems are often the poor and minorities. It's the customers of the Giant Eagle store in Pittsburgh—the ones without cars trying to make their way home with their groceries on a Friday afternoon—who would suffer most without an alternative to the official transportation systems tightly regulated by the state.

Of course, the poor of Pittsburgh are a bit luckier than most. They're splendidly served by the genial entrepreneur in the yellow Pirates T-shirt and his colleagues, all of whom ply an honorable trade without letting the law get in the way.

The jitneys do just fine, regardless of what the government thinks or says. Davis says his conservative estimate of the number of jitneys is 495. The drivers themselves figure that underestimates the true figure at least by half.

One odd thing Davis reported in his study, which the jitney drivers do not dispute, is that jitneys in Pittsburgh are a peculiarly black phenomenon. Most of the passengers are black, and nearly all the drivers are black. Moreover, the jitneys simply don't operate in all-white neighborhoods.

"We searched like crazy, all up and down the Monangahela Valley," he says, slowing his car to point out yet another jitney stand in the Hill district. "And we couldn't find *one*. I'll be damned if I can understand why. It seems like a neat service. If you're poor and white and living in some white area, you have to arrange with a friend or a relative to take you to the store. If you live in *this* neighborhood"—he gestures around at the Hill—"you can use a jitney. In a sense, this neighborhood, even though it's poor and black and no one would ever believe it—in a sense, *this* neighborhood gets better service. Because of the jitneys." ◧

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The Third World rejected Western colonialism in the '50s and '60s. Now it is trying to throw off Soviet colonialism, with "wars of liberation" in eight countries on three continents.

Fighting the Soviet Imperialists:

The New Liberation Movements

By Jack Wheeler

In August 1984, I went for the third time into Afghanistan with the *mujaheddin*, Islamic guerrillas fighting to rid their country of its Soviet occupiers. I had started out, more than a year earlier, to observe firsthand the various Third World anti-Soviet guerrilla movements—in Central America, Africa, southeast Asia, and Afghanistan. My first and second trips inside Afghanistan with the mujaheddin had been in the late summer of 1983, and now, a year later, I was making my third trip with the Afghan guerrillas.

I traveled with the legendary commander Qari Baba from the country's southern border with Pakistan all the way up into the central Hazarajat mountains, then down to Ghazni, Afghanistan's fourth-largest city.

Qari Baba leads more than 9,000 mujaheddin, who love, fear, and revere him as if he were their own grandfather—and, indeed, the honorific *Baba* is an Afghan term of affection. (*Qari*, also spelled "Qali," is an Islamic title signifying one who has committed the entire Koran to memory.) A powerfully built man with a flowing black beard, medicine-ball stomach, and a huge bullet-shaped shaved skull, he looks like a cross between Genghis Khan and Buddha. Qari Baba has immense stature among the mujaheddin for having killed more Soviet soldiers than any other Afghan.

When we reached Ghazni, Qari Baba called in his principal commanders operating throughout the entire area to meet me. Early the next morning, Qari Baba, his personal bodyguard, and I sat on the floor of a home half bombed to rubble by Soviet MiGs. One by one, the field commanders arrived.

Each of these men had several hundred mujaheddin under his command, and they were all renowned as great fighters in their own right. All looked as if they had stepped out of an Errol Flynn movie, with their dark beards, turbans, flashing knives in scabbards of tooled leather, bandoliers full of gleaming brass cartridges, and their rifles—ranging from ancient Lee Enfield bolt-action carbines to modern Soviet Kalashnikov machine guns—intricately decorated with colorful beadwork. Each would take off his sandals and lay down his weapon as he entered the room. They would shake my hand—Afghans love to shake hands—then sit down and fix their hawk-like eyes on me, sizing me up.

Tea was served, green tea from Chinese Turkestan, into which was heaped massive amounts of sugar. As always, when I asked that mine be *sheen trake*, without sugar, my hosts registered surprise. The talk was quiet and expectant as we waited for the last commanders to arrive. There was a stir at the door, and everyone stood up to warmly embrace a man introduced to me as Adam Khan.

As he sat down across from me and looked into my eyes, I recognized that even among this group, here was somebody special. His eyes were a fiery blue-green. His dark brown hair was unlike any Afghan's I'd ever seen, flowing and spilling down over his shoulders. An impish, devil-may-care grin was hidden under an enormous handlebar mustache. He carried himself with a graceful swagger that emanated confidence, power, and energy—the epitome of Afghan guerrilla charisma, just overflowing with it. As I looked back at him we both broke out into a big smile, taking an instant liking to each other.

I decided to tell Adam Khan and the others a story. "In my country, America," I told them through a local interpreter, Hakim, "there are stories and legends told about famous men who lived 100 years ago in western America. These men were called gunfighters, who fought duels with six-guns on their belts, who fought outlaws and bandits and savage Indians. Many books have been written about them, many motion pictures in Hollywood have been made about them. They are among the great legendary heroes of my country, and they had names like Wyatt Earp, Doc Holliday, Bat Masterson, and John Wesley Hardin. But the most famous of all, the most legendary and heroic, the greatest American gunfighter of all of them was... *Wild Bill Hickock.*

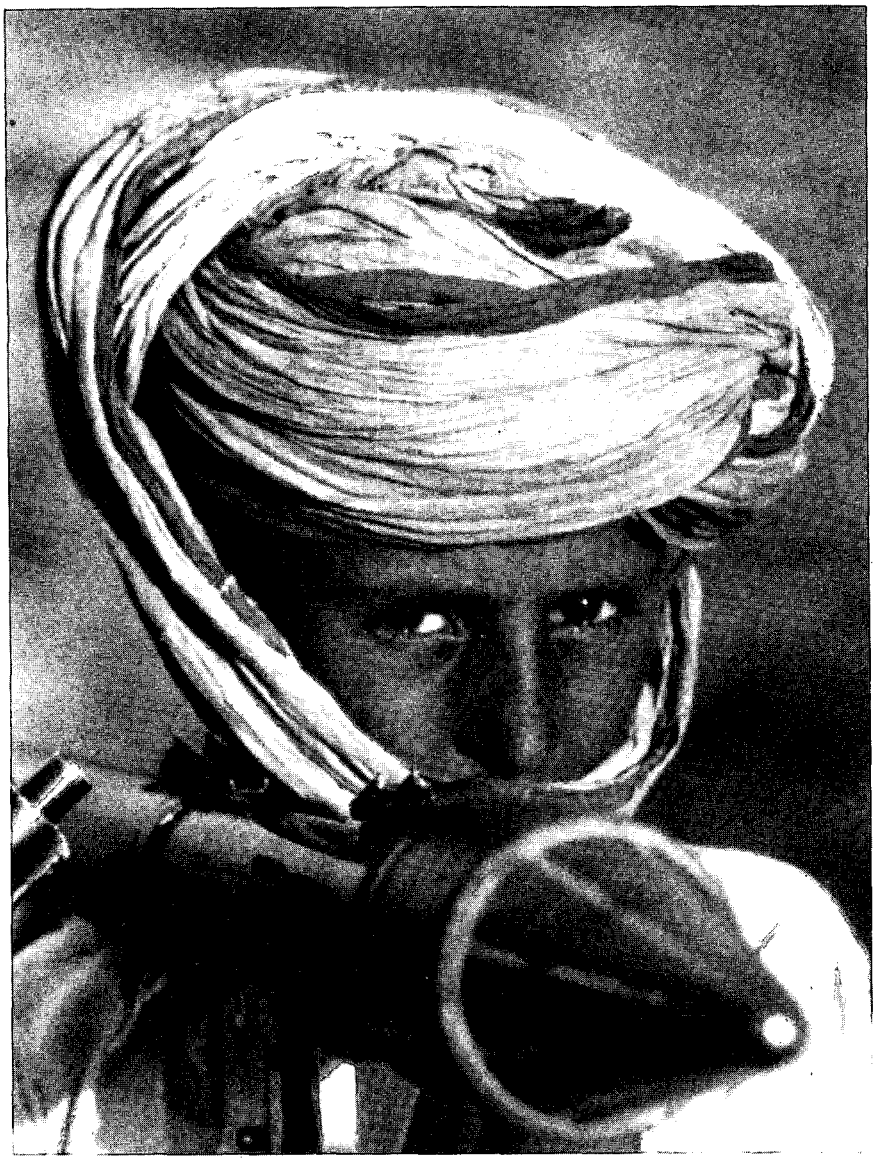
"And you"—I turned and pointed at Adam Khan—"*look just like Wild Bill Hickock!*" Adam Khan instantly stood up and threw his arms around me. I had made a friend.

Each commander wanted to show me his area of operations, but Adam Khan clamored the loudest, and soon I was sitting behind him on his Yamaha dirt bike—the mujaheddin are becoming more motorized now—charging off to his village in the hills above Ghazni. We passed a number of villages on the valley floor that had been destroyed by *Shuravi* (Afghan for Soviet) tanks, jets, and helicopter gunships. Fields had been napalmed and cratered with 500-pound bombs. Wells, dikes, and irrigation canals lay demolished by pinpoint, low-level bombing runs, with the surrounding hundreds of formerly irrigated acres now returning to desert.

But for every destroyed village there was another being rebuilt, in which people were still living, still struggling to keep their home and traditional way of life. In adjacent fields, villagers were desperately trying to get in whatever harvest was left, threshing the grain with oxen or camels, pitchforking piles of it into the air to separate the chaff. Against such unarmed villagers, Soviet MiGs could fly at tree-top level and with impunity bomb anywhere they wanted to in the valley. Flying so low, they can't be heard until they are right on top of you.

Once, we stopped to fix the motorcycle just outside a village perched on a slight rise overlooking Ghazni. The airport was a few kilometers away, and we could see a swarm of helicopters returning from their morning forays. Hunched over the bike and concentrating on tightening the

sprocket chain, I thought I heard something. I looked up to see two MiGs coming in directly above us. They cleared the ridge by not more than 100 feet, with every detail of their undercarriages clearly visible. By the time I got my camera out and focused, they were beyond us, off on a bombing run upon a village nearby. If the village we were in had been their target and they had been firing their cannons as they approached, the bullets would have hit us before we had any inkling at all that they were there.



An anti-Soviet Afghan guerrilla: With the step-up of guerrilla activity in and around Kabul, it is getting to be quite lethal for any Soviet to venture out on the capital's streets after sunset.

PHOTOGRAPHS•JACK WHEELER

In the face of such massive terrorism being inflicted upon them, the heroism of the Afghan people—the mujaheddin guerrillas, the farmers and villagers—is overwhelming, particularly when you experience it firsthand. These courageous people and others throughout the Third World who are willing to fight for their freedom—be they Afghan, Ethiopian, Nicaraguan, Angolan, Mozambican, Cambodian, Laotian, or Vietnamese—are on the cutting edge of a geopolitical development that is of extraordinary historical significance: armed popular resistance against Soviet colonialism. Yet so far, this has eluded the mental grasp of both the media and academia.

Take a look for a moment at a map of the world, a political map with the various countries' borders outlined. What has caused more changes in the map you are looking at, more than any other factor, is not so much an increased desire for individual freedom as a form of tribal or collective freedom: nationalism. For 30 years following the end of World War II, the target of Third World nationalist aspirations was Western colonialism. One by one, dozens of Third World colonies gained their political independence from West European imperial powers—India and Pakistan from England, for example; Indonesia from Holland; Laos, Cambodia, and North and South Vietnam from France; the Belgian Congo (renamed Zaire) from Belgium; Angola and Mozambique from Portugal.

Today, the era of Western colonialism is over and only vestigial remnants of the great West European imperial empires remain, such as Gibraltar and French Polynesia. But while these empires vanished, one other—the last 19th-century colonial power left—had risen like a hideously deformed phoenix from revolutionary ashes and resumed its imperialist march once again.

World War II was supposedly fought, as was World War I in Woodrow Wilson's words, to make the world "safe for democracy." The result, however, was to make the world safe for Soviet imperialism. From 1939 to 1946, the Soviet Union expanded its official borders by over a quarter of a million square miles, 69,000 from Poland alone, and violently subjugated into colonies the whole of Eastern Europe.

Stalin's heirs have since tried to expand throughout what became known as the "Third World" by manipulating those movements and peoples trying to gain political independence from the West. On January 6, 1961, Soviet premier Nikita Khrushchev announced the Soviet government's formal support of "national liberation wars" in Africa, Asia, and Latin America as the means to achieve a communist (that is, Soviet) victory over the forces of capitalism (the United States). It was not until the 1970s, however, that this strategy really bore abundant fruit.

On the very last day of 1969, Brazzaville-Congo declared itself Africa's first Marxist-Leninist "People's Republic." Soviet-backed revolutionaries subsequently led Marxist-Leninist coups in South Yemen (1971), Benin (1972), Ethiopia (1977), the

Seychelles (1977), Grenada (1979), and Surinam (1980). Cuban troops enabled the MPLA (Popular Movement for the Liberation of Angola) to seize power in Angola in 1975 and in 1979 did the same for the Sandinistas in Nicaragua. The coup in Portugal in 1974 allowed FRELIMO (Mozambique Liberation Front) to take over Mozambique without further struggle a year later. Also in 1975 the North Vietnamese army conquered South Vietnam in the name of the Viet Cong, and did the same for the communist group the Pathet Lao in Laos. (In the same year the China-backed Khmer Rouge took over Cambodia.) To close out the decade, the Soviet-armed Vietnamese army invaded Cambodia, chasing the genocidal Khmer Rouge into the jungles and installing a puppet regime, while the Red Army of the Soviet Union itself invaded Afghanistan. That's *14 countries* added to the Red Empire in little more than 10 years—a record of imperialist expansion unmatched by any 19th-century colonial power in its heyday.

That expansion, however, has come to an end. In this decade, the Soviets have not acquired a single new colony. Soviet influence throughout Africa has seriously eroded, sharply so in such client or quasi-client states as Guinea, Malagasay (Madagascar), and Congo.

Why the halt in Soviet expansion? Because the Soviet Union, being not an economic superpower at all but merely the world's biggest banana republic, cannot back its empire up economically. Soviet Marxism, for every country that has embraced it, has become not a path to a glorious future but a one-way ticket to oppression and poverty. All the Soviets can offer, and what they have perfected, is what I call the Kremlin's "Franchise for Totalitarianism"—a modular formula applicable to any location whereby a small clique, even with no popular power base whatever, can gain and maintain a ruthless tyranny.

If you "buy" the franchise, the Kremlin will first supply you with massive amounts of military arms. For instance, when the Israelis invaded southern Lebanon in 1981 and captured Palestine Liberation Organization (PLO) arms caches stored there, they trucked out 4,700 truckloads of Soviet weaponry. Jonas Savimbi's anti-Marxist resistance movement in Angola, UNITA, is well-armed thanks substantially to South Africa's turning over to Savimbi the vast Soviet arms caches it captured in raids on encampments of the Soviet-sponsored South West Africa People's Organization (SWAPO) in southwest Angola.

Soviet Marxism has become a one-way ticket to oppression.

The instant you negotiate or seize a portion of governmental authority in the capital city, you request "fraternal assistance" to eliminate "counterrevolutionary elements." Within days, Soviet troop-transport planes will start bringing in Soviet-proxy troops, a service provided by the Cubans, for example, for the MPLA in Angola and the Sandinistas in Nicaragua.

Once any opposition to total government control is neutralized, then the franchise is set up in earnest. The Soviets supply administrative personnel and "advisors" to each minister. The East Germans provide a palace guard and set up an internal spy and informer network of true Orwellian proportions. Terrorizing everyone from trusting any other fellow citizen—even brother and sister, parent and child—is the key to snuffing the development of any opposition and maintaining power.

The Cubans supply the military manpower both to suppress any armed resistance and to prevent any rebellion from the military, as they do in Nicaragua, Angola, Ethiopia, and Mozambique (along with Tanzanian troops, who provide the same service in the Seychelles). The North Vietnamese play this role in South Vietnam, Cambodia, and Laos (although there's a report of Cuban pilots flying in the Laotian air force), while the Soviets do it themselves in Afghanistan.

Contingents of North Koreans, Libyans, and PLO Palestinians provide military training for both the army and the secret police, while various East Blockers, mostly Czechs and Bulgarians, are the technicians for a few development projects. (The 20 Czechs captured and held hostage by UNITA whom I interviewed in Angola in 1983 during a visit to Jonas Savimbi's forces were wood-pulp engineers. The irrigation pipe set up at UNITA's agricultural center near Likua was from the Bulgarian-built agricultural center at the town of Maivinga, overrun by Savimbi's men.)

The entire society is mobilized, militarized, and made to swim in a sea of Marxist propaganda. All those who object are branded as "counterrevolutionary," subject to the loss of their job or food-ration card, to harassment, being beat up, jailed, tortured, or shot.

So far, the franchise has proven quite successful and tenacious in perpetuating Soviet colonial rule. To this day, no Soviet-backed Marxist-Leninist government that has "bought" the franchise has been removed from power from within. Anwar Sadat's throwing the Soviets out of Egypt (after Nasser's death)—and perhaps even Desire Bouterse's doing the same in Surinam—may come close. (Reagan's invasion of Grenada from without, however, does not count.) But if a genuine popular rebellion from within a Soviet colony succeeds in overthrowing the ruling clique, ejecting all Soviet and Soviet-proxy personnel from the country, and establishing a democratic form of government, the doctrine of the historical inevitability of Marxism-Leninism will have been shattered.

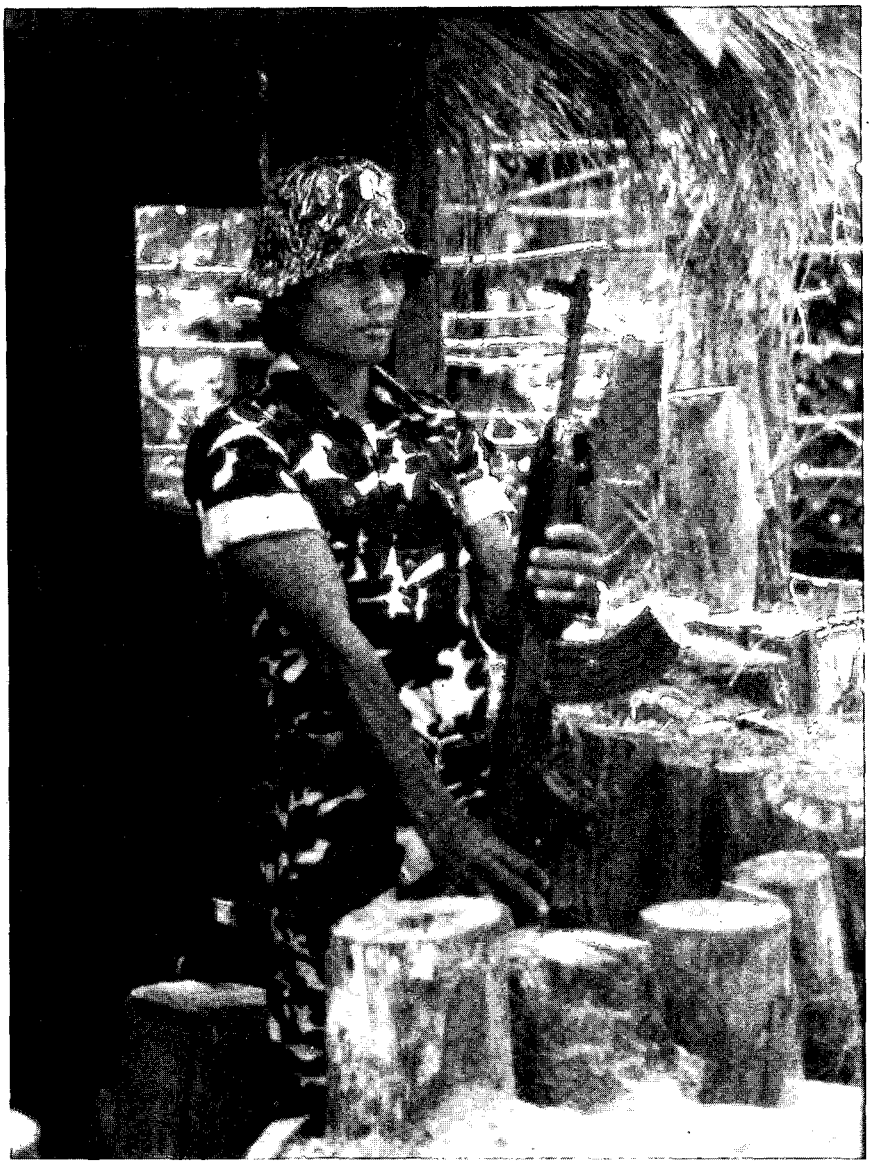
This is why the guerrilla wars being waged now in eight Soviet colonies on three continents represent a geopolitical

phenomenon of immense historical significance. Just as the Third World rejected Western colonialism in the 1950s and '60s, so it is rejecting Soviet colonialism in the 1980s. And it is using the Soviet strategy of armed guerrilla resistance—"wars of liberation"—to do so.

This new phenomenon of *anti-Soviet liberation movements* means that one should not look at a world map and see each struggle piecemeal, but rather as all related parts of a historical momentum opposed to imperialism—the "second stage" of post-World War II nationalist movements, now aimed at Soviet Marxist imperialism.

It is, of course, an almost fantastic oversimplification to speak of the Third World as an "it," as a single entity. Nonetheless, one can argue that the pendulum of history has swung away from Soviet Marxism as a model for a great many countries in Asia, Africa, and Latin America, and towards democracy and a market economy. In Latin America, for example, Argentina, Uruguay, Venezuela, Ecuador, Peru, Colombia, Panama, Costa Rica, and Honduras are all functioning democracies, with Brazil on the way.

There is, then, a "window of opportunity" right now for freedom and democracy in the world. The Soviet Union has overexpanded and is now on the defensive. If this opportunity is not taken advantage of, the Kremlin will use this period to digest and consolidate its gains, soon to be on the imperialist march again.



A KPNLF guard: Among the three Cambodian rebel groups, the Khmer People's National Liberation Front offers the best hope of implementing democracy, but the communist Khmer Rouge is still the best funded.

United States foreign policy has long been limited to containment and defensive reaction—a genuinely *re*actionary policy that has also included propping up corrupt autocrats such as Mobutu Sese Seko in Zaire and Ferdinand Marcos in the Philippines. If the United States is to reorient its perspective from a strategic defense to a strategic offense, it must be through the development of an activist, forward-looking foreign policy with the clear-cut strategic goal of destabilizing the Soviet Union through an energetic and orchestrated exploitation of its vulnerabilities, forcefully persuading it to disarm and democratize.

Those anti-Soviet guerrillas whom I've visited and talked to—be they Nicaraguan, Afghan, Angolan, Cambodian, Laotian, Vietnamese, Mozambican, or Ethiopian—do not want US soldiers to fight for them. They want to fight for their, and their country's, own freedom. They only ask for material, diplomatic, and moral help. Given that, they will do the rest. They are handing America and the West an opportunity for permanently reducing Soviet power and influence in the world.

That opportunity is larger and more promising in some areas than in others. By taking a brief look at each area separately, you can get an idea of just how large and promising it is:

• *Nicaragua.* It's necessary to realize what is at stake here. If the Sandinistas consolidate their rule, they, along with Moscow and Havana, will likely expand their sponsorship of Central American Marxist guerrillas, from El Salvador to Honduras and Costa Rica, then Panama, with the seizure of the Panama Canal as the primary goal. Fidel Castro's power and influence would be immeasurably strengthened, and the destabilization of Mexico would likely follow. If, instead, the Sandinistas are overthrown, Castro and the Kremlin may be finished in Central America.

Since the US Congress cut off aid to the anti-Sandinista forces—the Contras—in 1984, money and supplies must now come from private sources (see sidebar, page 44). With sufficient resources, the Contras could quadruple the size of

their fighting force to over 50,000 within a year—volunteers are pouring in and disenchantment with the regime is growing that fast.

• *Angola.* What Jonas Savimbi and his 50,000-guerrilla-strong UNITA movement need right now is US diplomatic support. At present, Chester Crocker, US undersecretary of state for African affairs, is doing his best to reach an accommodation—excluding Savimbi—with the Marxist-Leninist regime of Eduardo dos Santos, instead of demanding face-to-face negotiations between dos Santos and Savimbi to negotiate a cease-fire, the formation of a transition government, and the holding of genuine democratic elections.

Of critical importance to the dos Santos regime are the royalties that Gulf Oil pays the regime for oil it takes from Angolan wells. Every time you buy gas at a Gulf station, some of your money goes to Fidel Castro—the Angolan government uses the royalties to pay Castro hundreds of millions of US dollars a year for Cuban mercenaries to prop up its regime. Meanwhile, as Gulf helps fund a Soviet colony to protect itself from anti-Marxist guerrillas, it lobbies against Savimbi in the corridors of Washington.

• *Mozambique.* Of all the various insurgencies being waged now within Soviet colonies, in my opinion the closest to outright military victory is Renamo—Resistencia Nacional de Mocambicana, the Mozambique National Resistance (also called MNR). According to my sources, as of this writing more than 20,000 Renamo guerrillas have fully liberated northern Gaza, eastern Inhambane and eastern Tete provinces, and almost all of Manica, Sofala, and Zambezia provinces. They operate effectively throughout the rest of the country. Recently, Renamo has been vigorously attacking all the roads leading into the capital of Maputo and should soon carry the war into the capital itself.

In southern Africa last September, I interviewed by radio Afonso Dhlakama, Renamo's president and chief military commander. I asked Dhlakama what exactly he was fighting for.

"First," came the reply over the crackle and static of the bush radio, "is to free ourselves from Soviet colonialism. The Soviet Union is the world's curse. The Soviets practice more exploitation than any capitalist. Just as in Angola, their fishing fleets are taking everything out of our coastal waters. In a short time they will destroy the fishing industry in Mozambique.

"Second is to free ourselves from the tyranny of Marxism. There are no freedoms of any kind in Mozambique—of religion, of speech, of the press, of assembly—none. The penalty for smuggling is execution—yet people can only survive in Mozambique today by trading on the black market.

"What we are fighting for, then, is freedom—freedom for our country and freedom for ourselves as individuals. What we want is a democracy like you have in America, where each Mozambican can peacefully conduct his life as he sees fit and earn his living as he sees fit—instead of being told his purpose in life is to work for the benefit of the state and of Samora Machel [Mozambique's dictator]."

All the Soviets can offer is a "Franchise for Totalitarianism."

US undersecretary of state Chester Crocker at least puts on the facade of talking occasionally to Savimbi, but he refuses to have anything to do with Dhlakama. I asked Dhlakama why.

"My opinion," he said, "is that there is a clique in your State Department that has a fantasy of wooing away a communist dictator from the Soviets through their great diplomatic skills and foreign-aid bribes. This is a very foolish and naive dream. But we guerrillas spoil the fantasy and get in the way of their drawing-room negotiations. Thus your State Department has demonstrated nothing but unrelieved hostility towards us—much worse than under Carter."

Since I talked to Dhlakama last fall, the State Department has announced that it intends to provide "military assistance and training" to the Mozambique government—evidence of the extent to which the reactionary, elitist element at the department still controls US foreign policy. It is this element that equates cynicism with sophistication in foreign policy, and "peace and stability" (Crocker's oft-stated goal) with the consolidation of Marxist tyranny. But what Crocker and his ilk fail to realize is that—the morally repugnant spectacle of America aiding a murderous communist dictator battling professedly pro-Western democratic liberation forces aside—in terms of hard-headed *Realpolitik* they are backing a loser. Instead of seizing the opportunity to demand the democratization of Mozambique, they frantically try to prop up Machel when he is on his last legs.

• *Ethiopia.* Just as Stalin starved millions of rebellious Ukrainians and Russian peasants ("kulaks") either to death or into submission, and just as his heirs are attempting the same in Afghanistan today, so are Moscow's proxies doing now in Ethiopia. The provinces worst hit by drought and famine are Eritrea and Tigre—both substantially controlled (upwards of 85 percent) by the Eritrean and the Tigrean liberation movements.

The regime of Mengistu Mariam in Addis Ababa refuses to negotiate a cease-fire with the guerrillas and allow effective distribution of food aid throughout the area. According to my friend journalist Edward Girardet, who recently observed the relief operation, foreigners (relief organization personnel, journalists, etc.) are allowed to go to only five of the 256 distribution centers that the government claims exist. The rest are off limits, and most may not exist at all.

Before the media's discovery of the famine last October, most international food aid was used to feed the 300,000 soldiers in the Ethiopian army (up from

about 30,000 before Mengistu and by far the largest in Africa), and much of it still is. A solution would be to channel such aid through the Eritrean and Tigrean Relief Associations operating in Sudan. They would work with the Eritrean and Tigrean guerrillas in carrying it across the border and distribute it throughout the areas beyond the government's control.

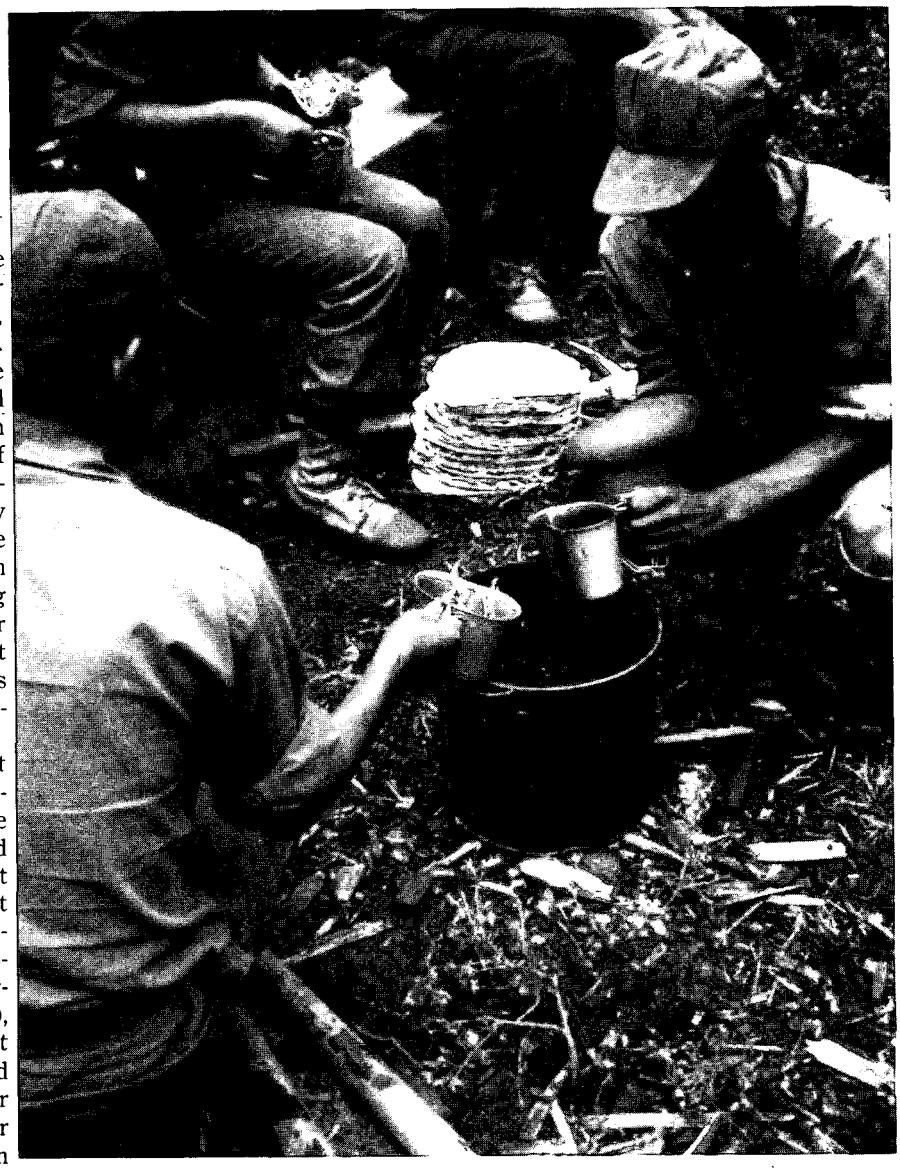
• *Cambodia.* Last December, Cambodia's Vietnamese occupiers mounted an offensive against the three insurgent groups—the pro-Western Khmer People's National Liberation Front (KPNLF), the Marxist-Leninist Khmer Rouge, and followers of former Cambodian ruler Prince Norodom Sihanouk (ANS). The Viets overran most guerrilla positions on the Thai border, including those of the well-armed Khmer Rouge. Consequently, the Thai government has reaped the bitter reward of its policy of forcing Cambodian refugees into camps just across the border inside Cambodia, which forced the KPLNF into using the majority of its men in static defensive positions obliged to protect the camps. The Thai army is now right up against the Vietnamese army at the border, with Vietnamese incursions into Thailand occurring almost daily. All the refugees have fled back onto Thai soil, their flourishing camps destroyed. For example, the camp at Rithysen, which had impressed me greatly when I visited it in July 1984 (REASON, Feb.), has been ground under Vietnamese tank treads.

Although China did provide an arms shipment to the KPNLF in October, China still gives one weapon to the KPNLF to every nine it gives to the Khmer Rouge. The Association of South East Asian Nations (ASEAN) has called for material support for the guerrillas from the West. The US House Foreign Affairs Committee recently voted $5 million in military assistance to "the noncommunist resistance in Cambodia" (that is, the KPNLF and Norodom Sihanouk's ANS, but specifically *not* the Khmer Rouge).

• *Laos and Vietnam.* The insurgencies here are just beginning, but they are growing. Old players like Phoumi Nosivom and Vang Pao are pretending to have something inside Laos, but it's just phony propaganda. The same applies to Champassak in southern Laos. In central Laos, however, guerrilla leaders Boua Lien and Kham Bou do have a few hundred men—no more—in the field. The most serious fighting is in the north, where several thousand Lao-theung and Hmong tribesmen, led by Chan Souk and Pa Kao Her, have been trained and armed by China. There is no Marxist context to their training whatever—just Laotian nationalism against Vietnamese imperialism.

In Vietnam, there are a couple of thousand Montagnard tribesmen in the Central Highlands—armed, again, by China—who call their insurgency Dega Phulro. People in France have helped one Le Quoc Thuy infiltrate insurgents into the Mekong Delta. According to my sources, there is an amalgam of some 12 small groups collectively called Phuc Quoc (Restoration), which is reportedly increasingly active in the Saigon area. They recently claimed to have blown up a main section of the Bien Hoa Bridge near Saigon. And, I have learned, members of the large Vietnamese community in Orange County, California, are presently developing a network of subversive cells throughout Vietnam.

• *Afghanistan.* As I see it, there are several key requirements for a Soviet defeat in Afghanistan. For one, accountability must be enforced for all CIA money disappearing into pockets in Islamabad and Peshawar, from where it supposedly is distributed among the mujaheddin forces. (There is a reliable report that Pir Gailani, leader of the



Nicaraguan Contras in camp: If the Contras are able to defeat the Sandinista regime in Managua, Castro and the Kremlin may be finished in Central America.

Mohaz party and a major figure in distributing US aid to the mujaheddin, just bought a home for one million pounds in London—meanwhile, his commander Amin Wardak hasn't got boots for his men.) Directly delivering cash, arms, and supplies to the principal regional commanders operating inside Afghanistan would bypass Islamabad and Peshawar. Also needed is the emergence of an internal unity among these main commanders (such as Qari Baba in Ghazni, Amin Wardak in Wardak, Jalal-ud-din in Paktia, Abdul Haq in Kabul, Ahmad Shah Massoud in Pansjher, Mohammad Ismail in Herat, and Mohammad Shah Ghazi in Ferah), for the reality is that no unity can arise among the rival political arms of the mujaheddin, based in Peshawar, Pakistan. The most urgent supplies the mujaheddin need are reliable, shoulder-fired antiaircraft missiles to combat the Soviets' deadly air power. And strategically, the mujaheddin must carry their war north into the USSR itself, among the 50 million fellow Moslem colonial subjects of Soviet Central Asia.

Although massive sums of US aid continue to leak through the pipeline—due to CIA incompetence and timidity—Congress's increased funding for the mujaheddin is beginning to show up on the battlefield. The best indication that not all the money is being wasted is the step-up in guerrilla activity in and around Kabul, the capital. Abdul Haq, the principal mujahed commander in the Kabul area, now has a few Chinese Kathusha rockets, with which he has been able to hit Soviet targets in the center of the city. The homes of Soviet officers and professors (teaching, or rather indoctrinating, at Kabul University) have been bombed. It is getting to be quite lethal for any Soviet to venture out onto Kabul streets after sunset.

For the mujaheddin, this is a positive development, one which other anti-Soviet insurgencies might do well to emulate. There are two styles of guerrilla warfare—the Chinese and the Russian, or alternatively described as the rural and the urban. The former, of which Mao was the master, concentrates on gaining control of the countryside, winning the support of the peasantry so the guerrillas can "swim like fish in the sea" of the rural population, slowly encircling and strangling the cities. The latter goes right for the cities, where the power is, and entails substantial urban terrorism. Savimbi in Angola, Dhlakama in Mozambique, Dien Del of the KPNLF in Cambodia, and Enrique Bermudez of the Contras in Nicaragua all fight on the Chinese model, and all have an abhorrence of PLO-style terror attacks on innocent city-dwellers.

There is now a "window of opportunity" for freedom in the world.

But sooner or later, they must realize that victory will require fighting in the main cities. They must be extremely selective in their activities, targeting government and military personnel only, and primarily foreign occupiers, such as Soviets, Cubans, East Germans, North Koreans, or Libyans. The aim is to turn Soviet colonies into exceedingly dangerous places for any Soviet or Soviet-proxy personnel—and the targets to make it so are the cities. Last August I had an opportunity to observe firsthand the working of this strategy, when I accompanied Adam Khan and his men on an attack in the center of Ghazni.

We first walked into the city in the middle of the day, past tank positions manned by Karmali troops (Afghans of the Soviet-installed Babrak Karmal regime), to a bombed-out section of the city a short distance from the airport. A flock of Soviet helicopter gunships began arriving, and by sticking my head out of a hole in a collapsed roof I got pictures of them so close-up that the miniguns in the nose and the pilots are visible. I could make out people walking among the flight line of gunships on the tarmac. Then off we went to another part of Ghazni, where the mujaheddin pointed out to me a fortress perched above the city on a 300-foot-high rock.

"That is the famous fortress of Bala Hissar," Adam Khan (via Hakim, my interpreter) informed me. "It was originally built by the great Sultan Mahmud Ghaz-Nahvi in what you would call the 11th century. Today, it is the location of the Soviet High Command, the military and administrative headquarters for the Soviet occupational forces in Ghazni province. Some four to five hundred Soviet personnel live in its barracks."

We walked back to a village on the city outskirts to meet a group of Adam Khan's men. After a lunch of tea, yogurt, and *nan* (Afghan flat bread), and after getting my beard trimmed by the village barber ("Ah, now you look like a true Afghan!" Adam Khan proudly proclaimed), I was offered a choice.

"We would like to take you with us on an 'activity' tonight," Adam Khan told me. "What would you like to do? We can attack the airport and blow up some of the helicopters on the ground that you saw today, or we can attack the Soviet High Command at Bala Hissar."

I chose Bala Hissar.

Guerrillas work at night and sleep during the day, so in the afternoon we slept. At the end of the day, we had tea in an orchard of plum trees. The talk was quiet and relaxed, with everyone at ease and in good humor, the setting peaceful and serene. Spreading out their blankets, Adam Khan and his lieutenants said their sunset Islamic prayers, then went to meet their fellow mujaheddin who had gathered in the village courtyard.

There was a total of 55 men, armed with an 85-millimeter recoilless rifle (which they called a *tope*), six rocket launchers, two machine guns, and 40 Kalashnikov assault rifles—all captured from the Soviets in previous battles. At dusk, they drove off in a truck and a van, with Adam Khan and me on his Yamaha. Stopping by the roadside about a mile from the city, the guerrillas split up into

several groups and headed for the Bala Hissar fortress in the deepening twilight.

Adam Khan has agents and informers throughout the city, and we went by the homes of three of them to get their latest reports. All the men met up at the ruins of a portion of the city turned to rubble by Soviet jets. On a slight rise, the ruins overlooked the city bazaar at the foot of the fortress, whose lights blinked at us some 200 yards away.

After a period of whispered conversations and directions, Adam Khan sent a group of 35 men led by Turan (captain) Kaiyum to stage the main attack and another group of 10 to create distraction. He and his remaining 10 men provided cover from our vantage point.

Mujaheddin commander Adam Khan: Of Afghanistan's Soviet occupiers, Khan vows that "we will not stop killing them until they leave our country."

We waited in the darkness as Kaiyum sneaked through city alleys and got into position. Fluorescent pink tracer bullets flew in a variety of directions—some just over our heads—from Soviet machine guns: random fire from the fort to dissuade attack. Calls from Karmali watchmen could be heard, warning each other to be on guard. Brilliant green flares were constantly being fired up in the air, lighting up the areas below them. The night was sparkling clear, with the Milky Way a bright band across the sky, and Scorpio suspended above the city. Dogs began to bark throughout the bazaar.

Suddenly, Kaiyum's recoilless rifle went off with a whoosh, and the explosion lit up the entire hill. Machine guns started to chirp, and two rocket launchers flashed into action. The fort responded with massive bursts of machine-gun fire, pink showers of tracer bullets blanketing the sky. Soon there was a full-scale battle going on, with deafening blasts as shells landed. Flares, tracers, automatic rifles, and heavy machine guns were all going full tilt. The battle would die down momentarily as Kaiyum and his men left their immediate position and resume quickly as they took up a new one.

There was another whoosh of the recoilless rifle, and the military power station exploded in a spectacular array of fireworks, sending cascades of electric sparks spilling over the sides of the rock face. Bala Hissar was now plunged into darkness, as the mujaheddin concentrated their fire on the barracks of the Soviet officers. Several shells scored direct hits on one of the main buildings, causing it to collapse.

With this, Adam Khan signaled his men to withdraw, giving them the cover to do so by firing rockets at the fortress. This quickly gained the attention of the fort's Soviet defenders, whose response was overwhelming. Bringing their heavy guns into action, they began raining 105-millimeter artillery shells upon our position. We were now racing through the ruins. Shells were landing so close to us, sending up clouds of choking dust, that the concussion almost knocked us over. When one hit a building, the mud-adobe wall would collapse, once almost right onto us. But whenever we stopped to catch our breath, Adam Khan and I would look at each other and burst out laughing. Amidst all the explosions, the collapsing walls, the choking dust, we all were doubled over with laughter, tears streaming down our faces. It was the farthest thing from being terrified. Just like a sky-dive, when you're in the middle of it—no fear at all, just exhilaration. If someone were to be hurt, then of course the mood would instantly change from fun to serious. But the Soviets were missing us. The attack upon them had been successful, and they were responding in impotent fury.

The battle had lasted little more than half an hour. Retreating into the night, we looked back to see the silhouette of Bala Hissar in the distance, now dark

With a Little Help from Friends

Third World anti-Soviet guerrillas significantly rely on, and can greatly benefit from, the aid of private organizations and individuals. I have here compiled some information, presented country by country, on a number of groups trying to raise aid. Those interested can further investigate these groups and their efforts.

• Nicaragua. *The group in the United States that is probably doing the most to aid the Contras is the United States Council for World Freedom (Box 585, Tabernash, CO 80478), run by Maj. Gen. Jack Singlaub. Friends of the Americas (912 N. Foster Dr., Baton Rouge, LA 70806), run by Woody and Diane Jenkins, is urging concerned individuals to start up in their areas "Shoebox for Liberty" programs to get badly needed aid—especially basic medical supplies—to refugee families of Nicaragua's Miskito Indians.*

The Nicaraguan Democratic Front, one of the main Contra groups, has launched the Nicaraguan Freedom Bond Project (Box 16-0593, Miami, FL 33116). By selling "freedom bonds" (perhaps soon available in denominations as small as $100), the project raises money for supplies to the Contras. No warranties are made, but should the Sandinistas be overthrown, the bonds are to be paid off through the sale of denationalized companies.

• Angola. *Perhaps one of the most effective things an American citizen can do to help Jonas Savimbi's battle against Angola's Marxist regime is to boycott Gulf Oil: Gulf's royalties to the regime supply it with US dollars to pay the Cuban mercenaries who protect it from Savimbi's forces. My own Freedom Research Foundation (Malibu, California) and the Cuban-American National Foundation (1000 Thomas Jefferson St. NW, Suite 601, Washington, DC 20007) are organizing a Boycott Gulf Project, with the slogan, "Every time you buy gas at a Gulf station, some of your money goes to Fidel Castro." If enough people become incensed at this practice, perhaps Gulf will change its ways, thus giving Savimbi a fighting chance at success.*

• Mozambique. *Friends of Mozambique (2901 Broadway, Suite 114, New York, NY 10025) supports the efforts of guerrilla leader Afonso Dhlakama. The group's director, Dr. Vilankulu, has worked with Dhlakama for years.*

• Ethiopia. *Inquiries about aid here can be directed to two organizations: Eritrean Relief Association (Box 8129, Khartoum, Sudan, attention: Gebre Micael) and Relief Society of Tigre (Box 8177, Khartoum, Sudan, attention: Yemane Kidane).*

• Cambodia. *The Khmer People's National Liberation Front operates the "Sponsor a Freedom Fighter Project" (c/o Kok Sar, P.O. Box 22-25 Raminstra Post Office, Bangkok 10220 Thailand). The price of sponsorship is $44, or $11 a month for four months, which goes to supply a guerrilla with clothing and basic gear. The KPNLF also offers subscriptions to its monthly bulletin (often containing color-picture coverage of the war), for $30 a year.*

• Vietnam. *Those wanting to investigate aiding Vietnamese rebels could contact Cong Tran (Box 4048, Santa Ana, CA 92702).*

• Afghanistan. *There are several worthwhile organizations in the United States trying to help the mujaheddin. A prominent one is the Committee for a Free Afghanistan (214 Massachusetts Ave. NE, Suite 480, Washington, DC 20002). The Afghan Information Center (Prof. Sayd Majrooh, Afghan Information Center, P.O. Box 228, Peshawar, Pakistan) offers subscriptions to its monthly bulletin on the mujaheddin, at $50 for one year. And acting in behalf of a noble humanitarian cause, American physician Bob Simon, of the UCLA medical school, is sending teams of American physicians and paramedics inside Afghanistan to treat wounded mujaheddin and villagers (International Medical Corps, Box 49525, Los Angeles, CA 90049).*

—J. W.

The author, August 1984, in mujahed garb in Afghanistan

and lightless. When Kaiyum and his men rejoined Adam Khan, the commander's first concern was for any wounded. There was only one casualty—a young boy of about 19 had suffered a flesh wound in his left thigh, his pant leg shredded and bloody. The next morning he was treated by a mujahed doctor and pronounced in good condition.

That same morning, Adam Khan received a report from a Karmali officer, whose task as an informer is to provide accurate information on Bala Hissar to the mujaheddin. The result of the "activity," independently verified by Qari Baba's own agents in the city: 25 Soviet officers killed and 7 injured when the barracks adjacent to the power station collapsed upon them.

"A good night's work," was Adam Khan's comment over morning tea. "The Shuravi must realize that we will not stop killing them until they leave our country." We raised our cups of tea. "*Mordabad Shuravi* (Death to the Soviets)," the guerrilla commander cried out. "*Zindabad* (Long live) *Afghanistan*!" ◧

Jack Wheeler, a professional adventurer who also holds a Ph.D. in philosophy, is director of the Freedom Research Foundation in Malibu, California. This is the last in a series of REASON articles in which he has reported on anti-Soviet guerrillas in Angola (Apr. 1984), Nicaragua (June-July 1984), Afghanistan (Sept. 1984), and Cambodia (Feb. 1985). The series is a project of the Reason Foundation Investigative Journalism Fund.

How to Ride the Dollar

It's up now, but can it last?

By John A. Pugsley

In the late summer of 1980, the US dollar began a sustained appreciation on foreign-exchange markets that has lasted for four and one-half years. This unprecedented ascent has profoundly affected the world economy—and you.

The rising dollar has dramatically reduced import prices, cost thousands of jobs in US export industries, provided a business bonanza for our trading partners, and postponed the collapse of Third World debtor nations. It has been a major boon to American consumers by substantially reducing the rate of price inflation.

Whether the strong dollar was the stroke of genius of Federal Reserve Board Chairman Paul Volcker or just the result of a random set of chance events, without it the nation would be teetering between a collapse of the banking system and hyperinflation. And it is certain that the Republicans owe their second term in office to dollar strength, for it completely camouflaged the effects of their stunning failure to keep their primary campaign pledge of the 1980 election—balancing the federal budget.

Besides the effects it has had on the economy, the rising dollar has dramatically affected investment markets. It has pushed commodities prices to depression levels and has left gold and silver in the doldrums. As price inflation has fallen, the public's rush to the high yields of the bond market has trampled the demand for all types of inflation hedges. The strong dollar must be given credit for the endurance of the business recovery that began the summer of 1982, and thus for the strength of the stock market.

There are only two possible explanations for the current strong dollar: either economic fundamentals in the United States have improved so that the strength of the dollar reflects a permanent realignment of currency values; or the strength is merely a distortion caused by temporary conditions, in which case the dollar will fall again. If the latter is the case, the changes in trade and investment markets brought about by the dollar's ascent will reverse themselves.

A look at the fundamentals indicates that the dollar not only is overvalued and due for a fall but may also be the only thing holding back an economic avalanche. When the decline begins (and it appears that it may be starting), the world economy could face the greatest crisis of this century. To understand why, and to defend your assets from the turmoil ahead, you should carefully consider the pressures that have built up within the system.

The source of the world's economic turmoil is the creation of money, and the source of most money creation is government. Unable to tax enough to meet outlays, governments borrow, and their borrowing competes for and absorbs available capital, driving interest rates higher. To prevent the collapse of industry and thence banks due to high interest rates, central banks are empowered to "monetize" government IOUs—that is, they convert the IOUs into money by purchasing them with money they create out of thin air.

An increasing money supply causes the value of money to fall, which is to say it causes prices of goods and services to rise. Price inflation, then, creates an explosion of economic symptoms, most of which are not linked in the public's mind to the money inflation that preceded the price inflation, and almost none of which are linked back to the original culprit, deficit spending.

One symptom of price inflation is an imbalance in international trade, which inevitably leads to changes in the relative values of currencies: If prices rise in nation A, and the exchange rate of nation A's currency with the currency of nation B remains fixed, goods in (inflating) nation A rise in price relative to goods in (non-inflating) country B. As citizens of nation A import more of the cheap goods from country B and elsewhere

abroad, foreigners become less willing to accept nation A's inflated currency, and its value falls on exchange markets.

Thus there is a bridge between deficits and the dollar's exchange value. But to understand the dollar's present strength in the face of the current deficits, and

to realize the severity of the situation now facing us, it's necessary to understand in some detail the chain of events that led us to the present.

△ □ ○

US national policy became committed to deficit spending during the Great Depression. After World War II, deficit growth became exponential. Total deficits doubled for each five-year period beginning in 1950, and then in the five years from 1974-1979 they tripled. For the entire 30-year period from 1950 to 1980, the percentage increase in the Consumer Price Index has almost exactly matched the percentage increase in federal debt, according to data from the Federal Reserve.

During the 1950s and '60s, however, currency-exchange rates were fixed by the 1944 Bretton Woods agreement, which pegged all other major currencies to the dollar, and the dollar to gold. Under the terms of Bretton Woods, if the central bank of another country accumulated excess dollars, it could exchange them for US Treasury gold, at $35 per ounce. This golden guarantee ensured a ready market for dollars everywhere in the world.

As US price inflation outpaced inflation in other industrialized nations, goods from these countries became cheaper and cheaper relative to US goods. So when citizens of other countries acquired US dollars, rather than spend these dollars on overpriced US goods they instead exchanged them for other currencies, with the dollars ending up in the hands of their central banks. And these central banks exchanged the dollars for US Treasury gold.

Eventually, the unrelenting increase in the US money supply resulted in a depletion of our gold reserves, and in 1971 President Nixon abrogated the Bretton Woods agreement. Gold no longer backed the dollar, and exchange rates were free to "float," which meant the market would set them. The dollar immediately began to fall relative to currencies with lower inflation rates, such as the German mark, Swiss franc, and Japanese yen. The results: a burst of inflation in the United States, as foreign goods rose to parity with inflated US goods; turmoil in investment markets; and confusion in banking circles.

Meanwhile, federal deficits continued their upward spiral, fueling the fire of inflation. Each time inflation spiked, it caused a business recession, which was met by increased deficit spending and increased money creation by the Federal Reserve. These in turn caused renewed inflation and a repeat of the cycle. The final inflation cycle peaked in 1980, at rates of close to 18 percent. Shortly after the peak, the dollar hit its all-time low.

Since 1980, US deficits have become legendary, reaching $200 billion per year with no end in sight. If the deficit-inflation-dollar link is correct, we would have expected the dollar to fall, not rise, and would have predicted another inflation peak, with rates of 25 to 30 percent this year. Yet inflation has fallen steadily from its 1980 peak, and the dollar has risen just as steadily to all-time highs. For the first time in 30 years, the increase in federal debt has not been matched by an increase in consumer prices. Why the anomaly?

In retrospect, it is obvious to me that a combination of fortuitous events has temporarily postponed the effects of the deficits and has lulled the American public into a misplaced, possibly fatal, sense of well-being.

The chain of events began with the decision by the Federal Reserve in late 1978 to curtail the monetization of Treasury IOUs in order to dampen inflation. For three years, from October 1978 through the summer of 1981, the Fed held back, and then, when the banking system was on the brink of total collapse, it reversed course and bought some of its IOUs (T-bills) with a frenzy. Its tight money policy resulted in the worst recession since the 1930s, but it also caused corporate America to trim out the excess fat and tighten its belt. High unemployment and the threat of bankruptcy broke the backs of labor unions, and productivity per worker soared.

Meanwhile, just as the nation was reeling past the 1980 inflation peak and the dollar was at its low, Ronald Reagan was campaigning on a platform of bringing government under control, balancing the budget, and wringing inflation out of the economy forever. His rhetoric was just what the world wanted to hear. As he was elected, inflation was already falling.

Interest rates were falling, too, but not as fast as inflation, which meant that *real* interest rates—the differential between nominal rates and inflation—were rising. After the Reagan election, foreign capital began to flee the uncertainty of recession and turmoil abroad and home in on the high real interest rates and high hopes for an American economic renaissance. The influx of capital caused the dollar to strengthen, and it

began its historic rise.

The strengthening dollar, of course, meant falling prices for imports. Simultaneously, it meant competition for American businesses that made it more difficult for them to raise prices. Thus, the stronger dollar, which was partially inspired by a falling inflation rate, amplified the drop in inflation and reinforced its own continued rise.

Another significant event was unfolding simultaneously. During the latter half of the 1970s, as US interest rates were rising to new highs, US banks found themselves trapped by legal limits on rates they could charge to domestic borrowers. One answer to this was foreign lending, where rates were not controlled. They flocked to Third World countries, where they found governments eager to pay high rates. With rising oil prices and rising commodity prices, it appeared that these Third World suppliers of raw materials would have no trouble repaying.

This flood of lending created a capital outflow that reached over $100 billion per year by 1981. Unfortunately, by then the loans were no longer made to chase higher rates, but rather to forestall disaster, for by 1981 it was clear the banks had made a terrible mistake. Oil prices were plunging, as were commodity prices, and the Third World borrowers were threatening default.

Breathless from the near disaster, the banks pulled back from foreign lending as rapidly as they could, and the capital outflow screeched to a halt, falling from $110 billion in 1982 to a small fraction of that today. This reduction of US lending abroad had an interesting feedback effect of its own. As funds were redirected from foreign markets to US markets, they had the same effect that foreign dollars entering US markets had—that is, they added impetus to the strengthening dollar. In fact, the drop in foreign investment was so great that by 1984 the dollar was climbing at a greater rate than anytime in the four years of its ascent, even though foreign investment in the US was beginning to decline!

The side effect of this new dollar strength was to benefit the banks themselves, for the strong dollar became an incredible boon to Third World debtors: though commodity prices in terms of dollars fell dramatically from 1980 to 1985, in terms of the currencies of these commodity-exporting countries prices jumped. Their exports soared, and so did their profits, at least in terms of their own depreciating currencies. Thus, the US banks, by redirecting their funds to US markets, actually benefited their weak borrowers. The Third World debt disaster was temporarily postponed by a strong dollar.

In summary, the capital flowing into the US, both from foreign savers seeking high returns and low risk and from domestic lenders who were curtailing foreign lending, strengthened the dollar, reduced US price inflation, and helped finance the exploding federal debt. The process was substantially aided by increased US productivity as a result of the deep recession of 1981-82, the deregulation of many industries (including banking), and a stimulative tax policy.

In analyzing this situation, it's important to recognize three critical truths:

First, the dollar strengthened primarily because of capital flows into the United States. This capital was seeking the high real returns generated by a falling inflation rate. When interest rates and inflation make other markets more attractive, capital will flow out of

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the United States just as rapidly as it flowed in.

Second, the dollar has become substantially overvalued relative to other major currencies when measured by the relative prices of goods. Today, the dollar buys 30 percent more goods in Japan, 70 percent more in Switzerland, 80 percent more in Britain, and 90 percent more in Germany than it did in late 1980. The deficit in the US trade balance is higher than ever before and will continue to grow as long as this overvaluation exists. For both economic and political reasons, such a trade deficit cannot be sustained indefinitely. Exporters will eventually force the government to impose trade barriers unless the dollar falls. Moreover, this outflow of dollars must drive the value of the dollar down the instant the inflow of capital subsides.

Third, the source of all these problems—the US deficits—are continuing and are bound to get even worse. The government has run $200-billion annual deficits during one of the strongest recoveries on record. When this recovery falters—which recoveries always do—those deficits could easily double from present levels.

There is no such thing as something for nothing. The astronomical stream of worthless IOUs issuing from Washington will never be repaid. In reality, they are nothing more than tax receipts disguised as IOUs. The only politically feasible way to prevent these deficits from collapsing the banking system is for the Fed to monetize them, and that means inflation—the greatest inflation in the history of the country.

The dollar is on the brink of a collapse. Whether that collapse is triggered by a drop in real interest rates

(they have already begun their decline), a rising inflation rate (dramatic money growth in the first quarter of 1985 ensures that price increases cannot be far off), a banking crisis (banks and savings-and-loans are failing right now at the highest rate since the depth of the Great Depression), or some unforeseen event, the decline is certain.

Once it begins, it will feed on itself just as the strengthening dollar did. Inflation will rise, capital will flow out, and the dollar will fall more. A falling dollar will cause a dangerous drop in Third World commodity exports and reignite the Third World debt crisis. The Fed will be caught in a box. If it protects the banks, inflation will soar. If it doesn't, they could collapse. Bet on money creation—it's a certainty.

To the individual, the coming collapse of the dollar means both risk and opportunity. Initially, interest rates may fall, as the Fed tries to stave off a banking crisis. The failure of several thrifts in Ohio came close to causing a nationwide bank panic, and note what happened. The Fed has brought interest rates down to ease liquidity and protect weaker banks.

The Ohio crisis also gave a glimmer of the pressure that has built up in currency and investment markets. As the crisis developed, the dollar dropped dramatically, and commodities and precious metals soared. The markets are volatile, waiting for the next shoe to drop.

How can the individual protect himself from the coming turmoil?

First, bet on rising prices for foreign currencies, particularly the German mark and Swiss franc. They are bound to appreciate dramatically.

Second, invest in commodities, particularly those depressed items that are produced in large quantities by Third World nations. They will become sought-after inflation hedges in the months ahead.

Third, accumulate gold and silver. They've been in the doldrums, but a resurgence of inflation will bring them back to popularity.

Fourth, once inflation gets under way in earnest, interest rates will move up with it. When rates bottom and start up, get out of bonds. For speculative profits, consider taking short positions in the interest-rate futures market. As interest rates rise, so will your profits on short positions.

Finally, don't believe those pundits who tell you that deficits don't matter and the future will be rosy. There is no such thing as a free lunch. The end result of the creation of endless billions of irredeemable government IOUs must be inflation. There is no other possibility. ◻

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The Great Inflation-Deflation Debate: Another Round

Inflation—Not Now, But Soon

If you think inflation is dead, you could lose your shirt.

By Howard Ruff

The "malarial economy" is the fundamental model for my investment decisions. It is based on the fact that, just like the fevers and chills of malaria, certain investments go up with the fevers of inflation and down with the chills of recession, and vice versa. I have concluded that although the Fed has not invalidated this malarial cycle, it has somewhat altered the timing, delaying inflation and its attendant bull market in gold.

The years 1980 through 1982 were a terrific example of the Fed's power to distort the economy. A fairly sharp recession started in 1980, caused by high interest rates that had been dragged up by inflation. The Fed loosened the money supply to end the recession, and it worked. But when it found that inflation was not dead, the Fed tightened up and drove interest rates to a post-Civil War high that thrust us into a long and deep recession.

If the Fed had not interfered with the cycle, the recession would have been shallower and shorter, and we would now be up to our hips in inflation, probably looking at $1,000 gold. However, the increased depth and severity of that double-dip recession wrung a lot of inflation out of the economy, but not all of it. As a result, this time it is taking longer to create the inevitable inflation that always results from government deficits and money creation. There is usually a two-year time lag between an inflationary event and higher inflation and gold. That has probably been extended to

2½ years—which means inflation should take off again some time this year.

Those who believe that inflation is dead cite among their reasons the character, wisdom, and skill of Federal Reserve Board Chairman Paul Volcker. The media describe him like the little Dutch boy sticking his finger in the dike until Congress can come to the rescue by cutting $50 billion out of the projected deficit.

But imagery is dubious. First, it is politically impossible to make $50 billion in real cuts. Second, even if they do succeed, cutting only $50 billion out of a $225-billion deficit—which is probably understated in the first place—is laughable when you consider the sheer size of the problem. It's a Band-Aid on a gaping wound. Finally, it is naive to believe that Volcker, simply by keeping the money supply tight, can resist the flood of increased purchasing power caused by the flood of new federal debt.

When foreign money stops pouring into the United States (sooner or later, foreign investors are going to run out of cash), and when industrial-capacity usage takes the slack out of the economy by rising closer to the crucial 84 percent level (it's over 80 percent now), Volcker will have to ask himself a simple question: "Do I hold the money supply firm and let interest rates take off into the stratosphere, causing a recession or depression—or do I relax the money supply to accommodate this wave of federal spending, in order to prevent the breaking of the economy's back?" It's just that simple.

History tells us that if this government insists on spending hundreds of billions of dollars more than it takes in, no force on earth can prevent a flood of inflation. There is not a single example in all of recorded history of a nation inundating itself in debt, living way beyond its means, spending far in excess of what it collects in revenues, and not ending up in a ruinous inflation that buries it up to its hips in worthless paper. To suggest that in the face of the monstrous forces building up, one man can prevent this—especially in a democratic society—is absurd.

Inflation delayed is inflation made even more powerful. It's like tying down the safety valve on a boiler. The pressure gauge is gold, and there are increasing signs that the bottom in the metals is behind us. First, there's a silver production shortage. As happens at all major bottoms, demand for silver at the grassroots, small-investor level is booming—ask any coin dealer—while low copper and silver prices have caused a lot of mine shutdowns. We have early symptoms of a classic supply-demand squeeze that will cause higher prices shortly.

Also, the dollar has lost some steam. Though it hasn't broken, it is badly bent. Currency intervention by central banks has taken a lot of the speculative pleasure out of the dollar, because speculators don't know when they'll be whipsawed by some central bank. With some of the speculative heat out of the dollar, the raw fundamentals of relative value will soon reassert themselves.

The Fed has kept interest rates historically high. This is helping to maintain a strong dollar, but it has

Inflation-Proofing Your Investments

Following are lists of the most profitable and least profitable investments during the 1976–80 inflation fever:

The Winners

Investment	% Increase	Inflation-adjusted
Silver	984.0%	699.0%
South African Gold Stock Index	643.0	447.6
Gold	614.0	426.2
Platinum	489.0	334.1
Machine tools	285.0	183.7
S&P Gold Mining Index	236.0	147.6
Home-building	180.0	106.4
Crude oil	156.0	88.7
Aerospace	146.0	81.3
Offshore drillers	137.0	74.7
Small Company Growth Fund Index	137.0	74.7
Hotel/motel	126.0	66.6
Capital Appreciation Fund Index	115.0	58.5
Entertainment	99.0	46.7
Textile/apparel	91.0	40.8
Publishing	88.0	38.6
S&P Low-Priced Stocks	88.0	38.6
Copper	87.0	37.8
Toys	85.0	36.3
Oil service	81.0	33.4
Growth Fund Index	68.0	23.8
Domestic integrated oil	67.0	23.1
Natural-gas pipelines	64.0	20.9
Natural Resource Index	63.5	20.5
Swiss franc	55.0	14.2
German mark	46.0	7.6

The Losers

Investment	% Decrease	Inflation-adjusted
Retail stores	-44.8%	-59.4%
Rubber/tires	-44.0	-58.8
Steel	-37.0	-53.6
Trucking companies	-37.0	-53.6
Beverages/brewers	-34.7	-51.9
Household furnishings	-34.2	-51.6
Autos	-22.0	-42.6
Long-term bonds	-22.0	-42.6
Intermediate bonds	-22.0	-42.6
Retail department stores	-20.0	-41.1
Trade-weighted dollar	-19.5	-40.7
Beverages/soft drinks	-19.4	-40.6
Chemicals	-19.0	-40.4
Mobile homes	-18.3	-39.8
Soaps	-18.0	-39.6
New York City banks	-16.9	-38.8
Canadian dollar	-15.3	-37.6
Cosmetics	-14.5	-37.0
Coal	-12.3	-35.4
Electric companies	-10.2	-33.9
Dow Jones Industrials	-10.0	-33.7
Paper	- 9.1	-33.1
Foods	- 9.0	-33.0
Consumer goods	- 7.2	-31.7
Machine/construction material	- 4.5	-29.7
Personal loans	- 3.9	-29.2
Agricultural machinery	- 2.7	-28.3
Drugs	- 2.0	-27.8

also suppressed inflation and gold. If you artificially suppress a basic trend, then when it does eventually break out, it does so with greater violence than if things had been allowed to follow their normal course. For example, we had higher inflation in 1974 than we would have had if Richard Nixon had not imposed wage and price controls in 1972. Similarly, the coming inflation, which has been suppressed by the super-powerful dollar, will be even greater than it would have been had the Fed not created a powerful dollar.

△ □ ○

We recently completed a computer study that analyzed the performance of numerous investments in all phases of the malarial economy. From that we derived lists of the best- and worst-performing investments during the inflationary fever of August 1976 to January 1980 (see chart on page 49).

During this period, inflation turned some investments that appeared to be winners into losers, and some losers became even bigger losers. The Swiss franc and the German mark, which are generally believed to be good inflation hedges, were mediocre at best. They chalked up about a four percent and two percent annual return respectively during their best years—and that's before taxes, which would have wiped out the gains entirely. Indeed, if you account for the capital-gains tax, the winners list would look even shorter.

It shouldn't amaze anyone that the best performers were silver, gold stocks, gold, and platinum. It was also certainly to be expected that foreign currencies and most commodities went right along with the metals and that the Dow Jones and bonds were big losers during inflation.

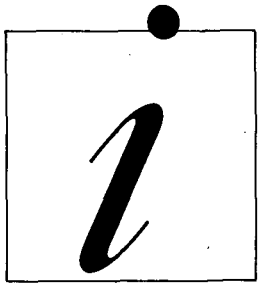
How can you use these lists to make investment decisions? If you believe, as I do, that we're about to see an inflationary rerun of 1976-80, be sure your portfolio is from the winners list, and clean out the losers. If you disagree, do the opposite. ◻

Howard Ruff is editor of The Financial Survival Report *and author of several books on investment and financial survival, including* Making Money *(Simon & Schuster, 1984).*

Deflation—Here Now, More Coming

Gold under $300, oil under $10—you'd better bet on it.

By James Dines



nflations have been part of civilization at least since the days of the Hammurabic Code, 40 centuries ago, when wage and price controls were first established. Every period of inflation or hyperinflation has been followed by one of deflation, without exception. Be this a cosmic yin-yang, or sine-cosine in the sky, nobody knows. Perhaps each generation must relearn the lessons from the errors of their grandparents' generation, thus accounting for the periodicity of the Kondratieff, Juglar, and other demonstrable cycles. So where are we today?

Without a doubt, the 1970s was a period of inflation. Indeed, in 1980 most people saw a period of unending inflation. A few even predicted hyperinflation, the supernova of inflation. But in the late '70s, I specifically rejected the possibility of hyperinflation (yet), because that results only from the collapse of political institutions, such as after devastating wars.

To the contrary, I had always felt that the 1970s represented a period of rather routine inflation that would end with a rather routine deflation. And I believe that a deflation began in 1980, at which time gold, oil, real estate (especially farmland), and the Dow Jones Commodity Index reached apogees not surpassed since. The unwashed do not perceive this as a period of deflation, calling it instead in Orwellian fashion a "disinflation"—perhaps unsurprising at a time when President Reagan calls one of his missiles "the Peacekeeper." But here we are, in the fifth year of a deflation that is invisible!

A key perception in understanding the inflation-deflation cycle is that when government creates too much money, more paper chases the same amount of goods, and prices ineluctably rise. An ancillary key perception is that when prices rise faster than income, spending at some point must decline; prices are too high and will then fall of their own weight—a process I believe began in 1980.

The symptoms are numerous for those who would see; it is no accident that we have today what are called "street people" (like the hobos of the 1930s), a "rust bowl" (like the dust bowl of the 1930s), emotional farm foreclosures, soup kitchens, and stubbornly high unemployment. What we make of this is that the basic industry of the United States has been sliding into an ever-deepening depression since 1980—one concealed by an overlay of a dynamically high-growth technology sector that is too young in its cycle to be similarly affected. Strength in high technology explains why a state such as California is doing well, whereas basic industry states, such as in the Midwest, are doing poorly.

I realize that it is a daring and extreme minority point of view to suggest that we are in a deflation, inasmuch as the United States has been conditioned by 50 years of ongoing inflation. Nonetheless, many sound reasons for a deflation can be found. For one thing, there are simply too many commodities. When OPEC got greedy in the late 1970s and raised the price of its commodity too high, the whole world embarked on a frantic search for oil (perhaps condensing 20 years of drilling into a few). Indeed, an oil glut exists today for anyone to see.

A second factor is the historic opening up of the undeveloped world. Though in the '60s it was uneconomic,

for instance, to mine huge copper deposits in faraway places due to the lack of financial and transportation infrastructures, that's changed. Mineral deposits are being opened up all over the world, all at once. In other words, a commodity glut can exist irrespective of the excess creation of paper money. That is why copper and sugar prices are so depressed.

Not only are commodity prices under pressure, but so are once-sacrosanct wages. When I began in 1975 predicting lower wages in my book *The Invisible Crash*, it was perceived as a preposterous prediction. However, wages in the United States have been ascending at an increasingly slower rate in this decade, and I predict they will actually decline sharply. In 1945, US workers were the best educated. This country had the best machinery, cheap capital, cheap land, and a hungry world to feed. Today, developing nations have the education, superior machinery, and the technological know-how that we've given them—and there is no way for our farmers to compete.

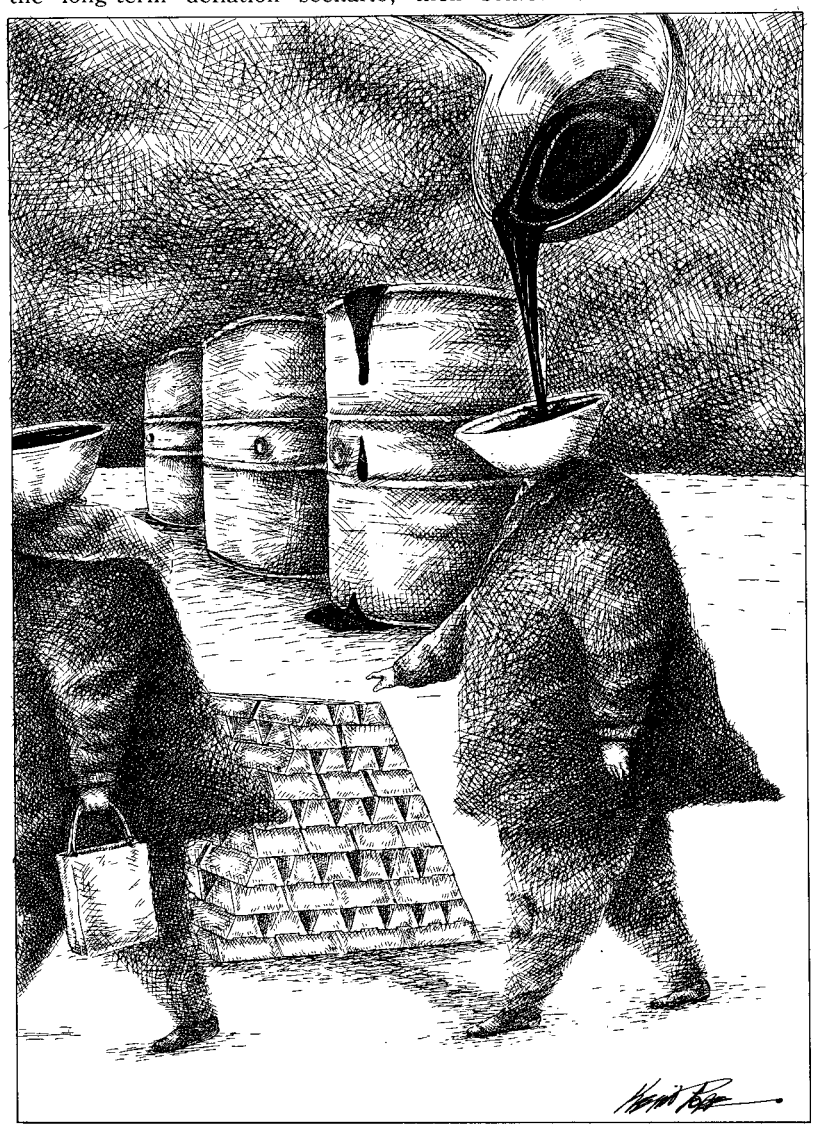
Since 1980 I have been predicting that China would go capitalist, and I think the signs are already beginning to emerge. In the last seven years China has been increasing its farm production at an average rate of 12 percent a year, and now it is suddenly the world's largest wheat producer! Have you considered the impact of one-quarter of the human race suddenly dumped onto the world labor market, willing to work for a paltry $2.50 per day? There is simply no way for the American labor force to survive in such circumstances, and all the US labor-union movement has proved is that a beggar mounted will ride his horse to death.

Since 1981 US poultry exports, for example, have plunged 37 percent to 551 million pounds, according to the Agriculture Department, with another 10 percent decline projected for this year. Our pork exports are also expected to plunge by a staggering 50 percent this year, from 1981 levels, while pork imports are expected to nearly double to almost 1 billion pounds from 1981 levels.

The truth is that the American worker, unless he is in some kind of high-technology field, is vulnerable to developing-nation labor competition—in other words, is dead as a dodo. One can throw the US farming industry into the trash can, just as we have lost our television industry and many others.

Not only are commodities, energy, and labor under pressure, but so is real estate. Obviously there is no surplus of real estate, because the amount of land is always fixed. But the country as a whole quite simply overbuilt in the 1970s, largely due to inflation and tax considerations (and those might soon be diminished). The resultant oversupply of buildings weighs heavily on many American cities. Price of capital is another consideration. Even here, Japan for example has an interest rate half ours—yet another lower-cost structure that enables them to sell at competitively lower prices.

None of the above sounds as if the United States is headed for an inflation. There will be periods of remission. Indeed, the financial newsletter *The Dines Letter*, which I edit, turned bullish on gold, copper, oil, and several other of the inflation hedges at the beginning of 1985, because we saw a temporary period of remission that would feature a rally in the inflation hedges. Thus, while I am looking for short-term strength in precious metals and other inflation hedges, by later this decade they will see substantially lower prices. If I'm right on the long-term deflation scenario, then sometime towards the end of this decade we will see gold under $300 an ounce, oil under $10 a barrel, interest rates below 5 percent, and many other now-unbelievable price levels.



During the 1984 presidential campaign Walter Mondale warned that huge federal deficits would drive interest rates higher, and perhaps he lost the election because interest rates fell instead. This is what scientists call an "anomaly," a surprising result in view of the logic. Well, it is no surprise at all to anyone who comprehends that we are in a deflation, which always features declining interest rates. Federal deficits are as big as ever, so *why are interest rates declining?* Those with in-depth understanding realize that we are in a long-term interest-rate decline, which will feature a long-term bull market in bonds.

But this in itself carries dangers. In 1970 the US

government spent 7.4 percent of its budget on interest payments; in 1986 that figure will be 14.7 percent. Huge federal deficits are compounding the increase at a frighteningly exponential rate. How high a percentage of the budget could be allocated to paying interest? Twenty percent? Fifty percent? Surely sometime before we reach the 100 percent level there will be some kind of financial calamity, which, I expect, will start sometime around 1989. The banking system is already feeling tremors.

Now that investors have all learned what the inflation hedges are and purchased them in the 1970s, I doubt that many even recognize deflation hedges: US dollars, Treasury bills and bonds, bank and insurance stocks, stocks in food and soft-drink companies, preferred stocks, utility stocks, and other defensive issues. Unsurprisingly, these groups have all been market leaders recently.

One of the primary beneficiaries of deflation is the financial sector. (Technology is in a separate cycle and not necessarily a beneficiary of either inflation or deflation.) Indeed, it is interesting to observe the current boom in the bank and insurance industries (except the ones that loaned money on inflation hedges: oil, real estate, commodity-related investments). Again, this is confirmation from the world of reality. Some call this process the "deindustrialization of America." It is not. It is an international depression, masked by a technological growth that is shrugging off a deflation because of its own incredible internal energy.

Another profound deflationary phenomenon will be the commencement of what I feel is the coming "robotics age." The truth is, this development trend has already begun. I can foresee that in a few short years the entire computer industry will be a subsection of robotics. There is a factory in Japan, for example, that employs one nightwatchman, and the lights are out, because robots work 24 hours a day manufacturing in the dark. This is the face of the future. How low would human wages have to drop to compete with a robot-operated factory?

True, the robotics revolution should be seen as something in which to invest, and *The Dines Letter* is intensely interested in this area. But on the larger canvas, what picture is being formed? What will it mean to the concept of having a job? Are we at some nexus in history where we at last have "made it"? Where laboring for our bread is a thing of the past? A point when there is more than enough food for everyone? When having a job will be a tremendous privilege, and when there will be a guaranteed minimum income for everybody?

What would make me think I am wrong about the deflation scenario I've depicted? I expect gold to rally from around $300 an ounce towards the $400 area, but if gold got substantially higher—and especially if it made a new all-time high—gold as a barometer of inflation would suggest that we were headed for another round of inflation, possibly even a hyperinflation. However, I do *not* expect this to occur. Rather, I look for gold to suffer a decline to *under $300* before the period of deflation is over.

On the other hand, I would be convinced that I am right that the United States is in a deflation if, for instance, the inflation rate declined to a minus number! After 50 years of living with inflation, some minus numbers in the inflation rate would convince me I am right about a deflation—and it would, of course, flabbergast the inflationists, who simply would not be able to explain it. ◻

James Dines is the editor of The Dines Letter *financial newsletter and the author of* The Invisible Crash *(Random House, 1975).*

Inflation or Deflation—Who Can Tell?

Whatever the future, you can protect yourself with an "armadillo strategy."

By Richard C. Young

In the last decade, the world economy has become increasingly complex and unpredictable. Today, depending on the evidence being considered at the moment, you can make a compelling case for deflation and depression, hyperinflation, and every economic scenario in between. As an economic and monetary analyst, I have my own carefully considered opinions on the subject. However, they are opinions, not guarantees of the future. No one can be absolutely sure what tomorrow will bring.

The major protagonists in the deflation versus hyperinflation controversy are urging investors to choose sides. They claim an individual's financial future depends on betting the right horse. This may be true for speculators trying to make a killing in the financial markets, but it is emphatically not the case for capital-preservation-oriented investors, who should be preparing themselves for any economic eventuality.

The "Financial Armadillo Strategy" is designed to preserve and enhance individual wealth in every conceivable future economic environment. Like the armored little creature from which it gets its name, the Financial Armadillo Strategy is both offensive and defensive in nature. It adapts to a wide range of investment climates and promises to endure, whatever economic upheavals may be on the horizon. The armadillo has survived since prehistoric times. Armadillo-strategy investors will be among those to survive what could truly be a tumultuous economic future.

The primary objective of any capital-preservation-oriented investment program is to grow financial assets at a rate greater than inflation with nominal investment risk. Historically, US Treasury bills have

been the single best vehicle for achieving this goal. Because T-bills, like all US Treasury securities, are backed by the "full faith and credit" of the US government, there is virtually no capital risk. As long as Uncle Sam is alive and kicking, your principal and interest are guaranteed. Except for a seven-year stretch between 1973 and 1980—a period of rapidly accelerating inflation—Treasury bills have provided an inflation-adjusted real rate of return. Consequently, the 90-day T-bill yield is a yardstick against which all conservative investment programs are measured.

A conservative investor could buy nothing but T-bills and be financially secure in a deflationary or stable-inflation economy. However, if runaway inflation is in the cards, T-bill investors run the risk of a yield that lags behind inflation, as was the case from 1973 to 1980. The challenge is to find an investment portfolio mix capable of matching the Treasury-bill yield while at the same time offering a long-term hedge against accelerating inflation.

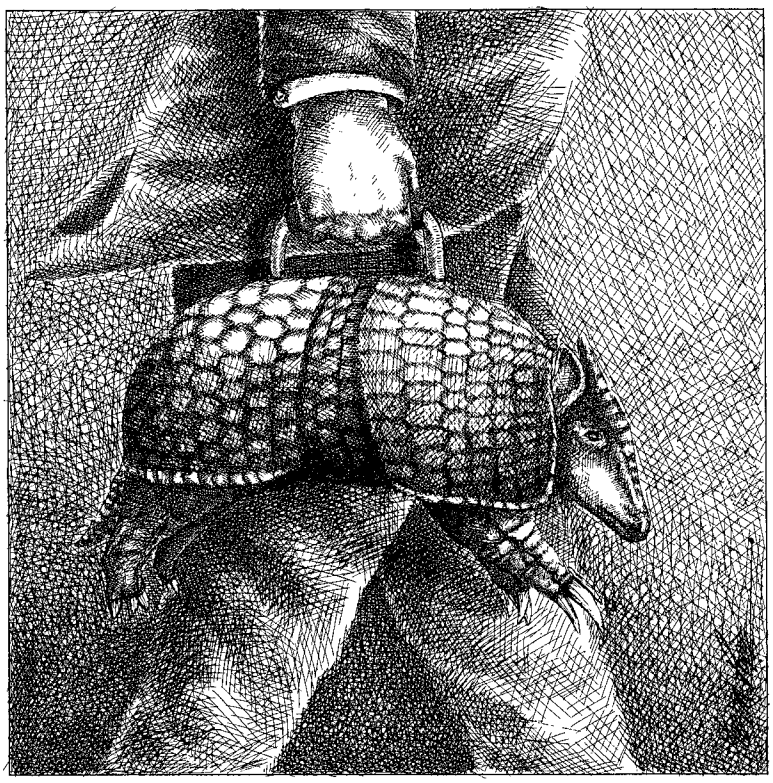
The Financial Armadillo Strategy achieves this objective with a portfolio consisting of 4- to 7-year T-notes (another type of US Treasury security) and gold. The yield on 4- to 7-year T-notes is generally higher than that offered by 90-day T-bills. For example, today 5-year T-notes are yielding approximately 11 percent, compared to the 8 percent provided by 90-day T-bills. If you were to buy $20,000 worth of T-bills yielding 8 percent, you would receive a $1,600 return on your investment in a year, assuming a stable T-bill yield over the year. For $15,000 invested in 5-year T-notes yielding 11 percent, you would receive a comparable $1,650 return.

Due to the longer maturity of the 5-year T-notes, "purchasing-power" risk is increased. If the inflation rate goes from 4 to 15 percent in the 5-year maturity period of the T-note, you could expect a negative inflation-adjusted return. However, if you use the $5,000 saved in purchasing 5-year T-notes instead of T-bills to buy gold as inflation insurance, you could probably count on a positive real return even with soaring inflation.

During the inflation wave of the '70s—at the same time T-bill yields were lagging behind inflation—gold went from approximately $42 per ounce to over $800. I doubt if we can expect such a dramatic run-up during any future inflationary wave, but it is fair to assume that the price of gold would react favorably to a return to double-digit inflation. This 25 percent portfolio position in gold would more than compensate for the negative inflation-adjusted return on 5-year T-notes.

During a deflationary crisis, it is open to question whether the price of gold would decline. If investors are frightened in any extreme economic environment, inflationary or deflationary, gold might hold attraction. However, let's assume that gold does drop with deflation. T-notes would appreciate sharply as interest rates collapsed, producing substantial capital gains in addition to yield—something T-bills don't offer.

Let's consider what you could expect from the Financial Armadillo Strategy in a relatively stable disinflationary environment such as we are now enjoying. The yield on T-notes, assuming inflation and interest rates remain stable for the next five years, would retain approximately the same market value. The T-note portion of a portfolio would provide a rate of return substantially above the rate of inflation and comfortably above the T-bill yield. While the price of gold could conceivably go down, I'm confident it wouldn't drop far below its current price, a price consistent with my historical value guidelines.



The Financial Armadillo Strategy is as easy to implement as it is effective. T-notes can be purchased through your local commercial bank or stockbroker. (They are generally sold in minimum denominations of $5,000.) Gold coins can be easily purchased at numerous dealers and stored in a safe-deposit box at your bank. Certificates of gold ownership are also available at major banks throughout the United States. (Do *not* buy gold shares for your Financial Armadillo program. A gold share represents nothing more than a fractional interest in a hole in the ground, vulnerable to any number of natural or political disasters.)

It's not easy for individuals to ignore the often emotional advice given by financial pundits on either side of the inflation-deflation issue. Even an extremist can, on occasion, be correct, and those who follow such advice can make a quick killing. However, when extremists are wrong, their disciples can be wiped out. It's better to be safe than sorry. The Financial Armadillo Strategy offers a common-sense way to deal with the unknown. ◧

Richard Young is president of Young Research & Publishing, Inc., and managing director of Newport International Investments, Inc. He is the publisher of Young's World Money Forecast, The Young Forecast, Young's International Gold Reports, *and* Young's Economic Strategy Reports.

Profits On-Line

Your personal computer could be your best investment tool.

By James B. Powell

One of my readers called recently about a discovery his 14-year-old son made while using a new investment program on the family's computer. The man was so excited he could could scarcely hold the phone. "Hell," he said, "I could hardly believe it. The kid was just messing around and found a jackpot!"

A week earlier the man had showed his son how to instruct the computer to automatically process huge quantities of stock-market and economic data, looking for trends and relationships that could lead to profitable investments. He also showed him how to learn to trade by practicing his strategies with historical data that could be acquired by telephone and dumped directly into the computer. The boy took to it as if it were the latest video game. The objective was to give himself $5,000 and do the best he could with it.

My caller explained that his son had just rushed into the den waving a printout showing a relationship he had found between several high-tech stocks and some economic data he had obtained over the phone. The man chuckled at first, because his son didn't know enough about economics to realize the data he selected "couldn't possibly have any relationship to the stocks he had selected."

But they did! In fact, the boy used the information to run his hypothetical $5,000 portfolio to nearly $80,000 before unknown factors caused it to break down. His interest aroused, my caller wanted to learn more about using his computer to discover relationships and patterns that would result in profitable trades.

Using a computerized investment program to process and display years of prices, economic data, and market statistics to look for trends and leading indicators can be one of the most profitable analysis tools available. But it is only one of the many services provided by such systems.

A microcomputer can just as easily sift through the balance sheets of thousands of companies and prepare a list of those that meet whatever investment criteria the user desires. Microcomputers can greatly simplify sophisticated option trades and can even help evaluate complex real-estate transactions. And, of course, the computer is an acknowledged pro at simply keeping track of news and prices on a regular basis, like an electronic mother hen.

Moreover, after a decision has been made regarding an investment, a microcomputer can be used to place buy and sell orders with an increasing number of brokerage firms, including Fidelity Brokerage Services, Max Ule and Co., C. D. Anderson, and North American Investment Corp.

The computer can also be used to manage a portfolio and help with tax planning so that investors can keep most of what they earn. But the best news is that these powerful services are readily available, affordable, and easily learned.

In fact, all the advantages of computers that were once the exclusive domain of institutional investors may now be employed by individuals. Microcomputers, like the six-shooters of a century ago, are proving to be great equalizers. They can provide the ammunition and the confidence you need to be a winner in the competition for investment profits.

Most existing investment software is available for Apple II series microcomputers and for the IBM PC. IBM's machine is emerging as the computer of choice, because many of the most powerful programs just being introduced are designed only for the PC. Of course, the new software will undoubtedly run on many of the IBM-compatible computers as well.

Whichever computer you choose, be certain it has the ability to display graphs. The computer should also have two disk drives and will need 256k of internal memory for the most powerful software, although many popular programs need as little as 64k.

And unless you have photographic recall for important information, you will find a printer very useful. Almost all dot-matrix printers, such as those made by Epson, IBM (an Epson under the cover), and Okidata, will reproduce your graphs, but double check with your dealer before you buy.

In order to use networks and financial databases, you will need a modem to permit your computer to communicate with them over the telephone. Modems are rated according to the speed at which they transmit and receive data.

A 1200-baud modem, for example, works four times as fast as the less expensive 300-baud units. But since most databases only charge twice as much for the 1200-baud transmision rate, the faster modems are the most economical in the long run, even though they cost more initially. Several excellent modems exist, including the Hayes Smartmodem 1200, which has seen much successful use by investors.

The choice of software depends upon the types of investments made and how they are selected. Fundamental investors screen financial data to find companies whose earnings, lack of debt, and dozens of other factors indicate they are undervalued by the stock market. Commodity traders examine information such as the commodity demand, weather predictions, and the amount of crop still on hand. In both cases, investors are content to wait patiently for the markets to discover and revalue their investments.

Technical investors, on the other hand, are not interested in fundamentals and "undiscovered value." They believe that everything that is known about an investment is, or soon will be, reflected in its price. Therefore, by analyzing price and volume movements alone, it is possible to detect upcoming changes early enough to profit from them.

Although fundamental investors sometimes refer to

technical investors as "witch doctors reading entrails" and are in turn referred to as "old men a hundred years behind the times," both techniques have their strong points. As a result, more and more people are using a blend of both fundamental and technical analysis, which often yields outstanding returns.

Such investors use fundamentals to discover a group of attractive issues that they feel are prime candidates for market reappraisal. They then use technical studies to monitor each investment for signs that a reevaluation is starting.

Standard & Poor's *Stockpak II* is an excellent program which will screen thousands of companies for commonly used financial parameters. The user selects the desired values, then the program searches the data and creates a list of those stocks that qualify.

Of particular value is the program's unique capability of accepting new, user-defined parameters from investors who wish to select companies with special characteristics that make them unusually attractive at particular points in the economic cycle. Stockpak II is powerful yet easy to use. Unfortunately, however, the program will not display a company's name (only its symbol), which makes long lists inconvenient to read.

Stockpak II uses datadisks, which are mailed out each month, rather than accessing an on-line database. Users may subscribe to a composite service consisting of 1,500 stocks selected from the New York Stock Exchange, the American Stock Exchange, and the Over-the-Counter Exchange. They may target a particular exchange or take the full service of 4,600 stocks.

Value Line's *Value/Screen* is a similar product, which processes 1,650 stocks selected from the major exchanges. Value/Screen also uses monthly (or quarterly) datadisks. Unlike Stockpak II, however, Value/Screen does not allow the user to create totally new selection parameters, although the set included in the program is quite expensive.

Value/Screen is very easy to use. It has an excellent system for reporting the results of screens, which includes the use of company names as well as symbols. The program contains a limited but useful portfolio management program.

Both Stockpak II and Value/Screen have an important limitation. Because they use datadisks rather than on-line databanks, screens can be run using information which has changed since the disk was sent.

This problem is largely confined to screens based upon price. Investors who are alert to the limitations of datadisks, however, are not likely to get into trouble. And because running screens involves considerable data processing, investors who use the disk-based programs will avoid high network and database charges.

A good fundamental-analysis program that uses up-to-date on-line information is *Dow Jones Market Microscope*. However, it ranks rather than screens companies. Investors who want full-function screening of on-line company data should find Savant's *Fundamental Investor* worth reviewing.

The Technical Investor by Savant Corporation could easily be the Mercedes-Benz of technical-analysis software. The package will automatically handle every type of security for which historical or daily information is available on the Dow Jones Industrial, Transportation, Utilities, and Composite averages.

The program also allows the user to enter prices by hand if desired and creates additional databases for commodities, collectibles, diamonds, or other investments. A year's worth of daily data for 80 securities or 40 years' for two securities can be stored on each disk. Users may have as many disks and follow as many investments as they wish.

The Technical Investor has an impressive collection of analysis tools and excellent graphics capabilities with which to display results. Multiple charts may be placed on the monitor at once to facilitate comparisons.

Available charts include price and volume bars; high, low, and close prices; point and figure charts; five different price/volume trend indicators; regressions; oscillator functions; exponential and moving averages; relative-strength plots; and more. Whew!

If many of the terms are unfamiliar, don't be alarmed. The package is easy to use and allows its operator to bypass any functions that aren't desired.

If The Technical Investor can be compared to a Mercedes-Benz, *Compu Trac* by The Technical Analysis Group is clearly a Rolls Royce. Compu Trac is the most comprehensive, exhaustive, and powerful collection of technical-analysis tools available to individual investors.

Compu Trac includes more than 40 analysis tools for stocks, commodities, and market data, and users can custom design additional programs. The software will accept data from several on-line databases. Graphics are very good and permit split-screen comparisons of charts.

Software for the Savvy Investor

Dow Jones & Co. P.O. Box 300 Princeton, NJ 08540 800/257-5114	**Dow Jones Market Manager** (for Apple computers only) **Dow Jones Market Manager Plus** (for IBMs) **Dow Jones Market Microscope** (for Apple computers only)	*$299* *$249* *$349*
Savant Corporation P.O. Box 440278 Houston, TX 77244 713/556-8363 For: IBM PC, XT, and AT	**Technical Investor** **Databridge** **Optioncalc** **Fundamental Investor**	*$395* *$145* *$ 89* *$395*
Standard & Poor's 25 Broadway New York, NY 10004 212/208-8000 For: IBM PC, XT, and Apple II series	**Stockpak II**	*$245 each for NYSE, AMEX, or basic 1,500-stock composite; $490 for OTC stocks; $980 for full 4,600 stocks. Prices include year of monthly data disks.*
The Technical Analysis Group P.O. Box 15951 New Orleans, LA 70175 800/535-7990 For: IBM PC, XT, AT, and Apple II series (*not* Apple IIc)	**Compu Trac**	*$1,900 for full package*
Value Line, Inc. 711 Third Ave. New York, NY 10017 212/687-3965 For: IBM PC, XT, and Apple II series (*not* Apple IIc)	**Value/Screen**	*$443 (first year; $398 following years) for year of monthly data disks; $211 (first year; $162 following years) for year of quarterly data disks.*

Databases for Building Portfolios

Warner Computer Systems, Inc. 605 Third Ave., 15th Floor New York, NY 10158 800/626-4634	**Warner's Financial Databases**	■*$48 sign-up fee.* ■*No minimum monthly charge.*
Dow Jones & Co. P.O. Box 300 Princeton, NJ 08540 800/257-5114	**Dow Jones News/ Retrieval**	■*$75 sign-up fee (waived with purchase of DJ-supported or -produced software package or modem).* ■*No monthly minimum charge.*
National Computer Network Corp. 1929 N. Harlem Ave. Chicago, IL 60635 312/622-6666	**Nite-Line**	■*$30 sign-up fee.* ■*No monthly minimum charge.*
Commodity Systems, Inc. 200 W. Palametto Park Rd. Boca Raton, FL 33432 800/327-0175	**Marstat Database**	■*$135 sign-up fee (includes some software).* ■*$29 monthly minimum charge (includes 10 commodity quotes per day).*
CompuServe, Inc. 5000 Arlington Centre Blvd. Columbus, OH 43220 614/457-8600	**CompuServe Executive Information Service**	■*$69.95 sign-up fee.* ■*$10 monthly minimum charge.* *(Services charge additional per-transmission fees, which vary from service to service.)*

Serious investors tend not to find Compu Trac difficult to learn. The program's price includes several cassette tape recordings in addition to instruction manuals which cover equipment set-up procedures and the operation of each program feature. Compu Trac is a program to grow into as you use its many features. It is as much a technical-analysis tutor as it is a computational servant.

The selection of networks and appropriate on-line databases is best deferred until one's investment software has been selected. Usually the programs will specify which are compatible and most suitable for the intended uses. And as we saw with Stockpak II and Value/Screen, sometimes no network is needed at all.

Networks and databases may also be used without investment-analysis software, although several services do include special communication packages in their start-up kits. Because Dow Jones publishes the *Wall Street Journal* and *Barron's*, the company offers many articles of interest to investors on its *Dow Jones News/Retrieval* network in addition to price quotes, Securities and Exchange Commission disclosure filings, and other services.

CompuServe's *Executive Information Service* is also very extensive, with Standard & Poor's, Value Line, and Moody's databases included with many other stock, commodity, economic, and market features. CompuServe may also be used to place buy and sell orders with Max Ule & Co.

Often, however, special-purpose networks with only a few databases are faster than their more comprehensive competitors. The *Warner Database* and *Nite-Line*, for example, are two to three times quicker than most general-purpose networks. If all an investor needs is prices, it pays to set up a file with one of the specialized networks and simply run it periodically. Investors may then use the prices directly, dump them into their analysis programs, or even transfer them into Lotus 1,2,3 or VisiCalc.

Although computers are enormously useful tools for investment analysis, they are incapable of making investment decisions. Investors, with their unique skills and intuitions, must still interpret the information.

Tim Slater, president of Compu Trac, recently put the computer in perspective: "One must realize that if a computer could be programmed to completely take over and be perfectly effective, within a short period of time the computer itself would own an exchange."

"The simple fact," Slater adds, "is that there are many intangibles within the market structure, and one's mind is necessary to make the correlation of the data, charts, and studies which the computer can so easily provide." ◧

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Melt Down: The Deak Saga

A precious metals empire in decline.

By Steven K. Beckner

A few years ago Nicholas L. Deak delivered the following sage advice in his crisp Hungarian accent: "The best way for a businessman or an individual to protect himself against inflation is to stay active, engage in imaginative business, swim with the tide, and stay atop." The tide of inflation has since ebbed. But Deak & Co.—which once claimed to be the most important foreign-exchange dealer in the Western Hemisphere and the world's leading retailer of precious metals—is now sinking fast, having apparently disregarded the dictum of its own founder and namesake.

Last December 6, Deak & Co.—holding company for a worldwide network of Deak banks, foreign-exchange brokers, and precious-metals dealers—filed for government protection from its creditors under Chapter 11 of the US Bankruptcy Code. Included in the filing were two key subsidiaries, Deak-Perera Wall Street and Deak-Perera International Banking Corporation. List-

ing liabilities of $95 million and assets of $62.2 million, Deak & Co. cited "severe liquidity problems."

In the ensuing months, two separate groups of indignant creditors, many of them overseas individuals who had deposited money with Deak subsidiaries, have been seeking control of the company's assets. Deak's Far East offices have been closed under a cloud of controversy. The Hong Kong government has charged the Deak office there with illegally accepting deposits and in March issued a warrant for Nicholas Deak's arrest. Some have alleged that the New York headquarters "looted" depositors' funds to finance other operations.

Deak & Co., as well as its Foreign Commerce Bank (a Swiss bank, 86 percent owned by Deak & Co.), is known to be up for sale. As this article went to press, the bankruptcy court had not taken the company out of the Deak family's control. Meanwhile, some holders of precious metals under Deak's pioneering precious-metals certificate program and depositors in its banks have panicked and started to withdraw their holdings, compounding the company's liquidity problems.

How did the mighty Deak-Perera Group, as it is known, come to be laid so low?

R. Leslie Deak—Nick Deak's 33-year-old son and the holding company's executive vice-president—blames the trauma primarily on adverse publicity stemming from a government investigation of laundered narcotics money from Latin America. He claims that competitors used a report issued last October by the President's Commission on Organized Crime, implicating Deak-Perera, to frighten and steal its customers. "The damage we have suffered from maliciousness in that report to a very great extent caused the downfall of a very fine firm and the damage to a very fine man—my dad," said Deak, who is president of Deak-Perera U.S., to the *New York Times*.

But others with intimate knowledge of the company told me that is only partly true. The company's problems, they claim, go back years and have more to do with internal mismanagement, bad business strategy, and personalities than with any government harassment of predatory rivals. (Neither of the Deaks would make himself available for comment.)

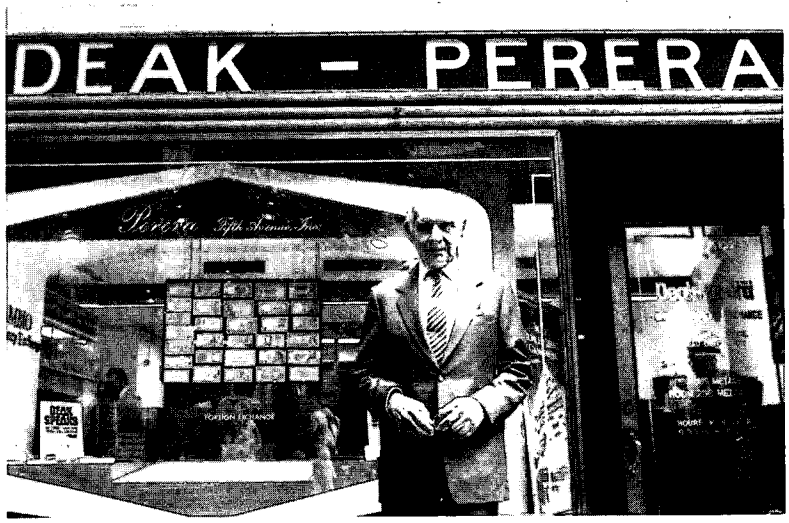
The younger Deak's explanation is "complete bullshit," one former Deak-Perera executive told me. "It's mismanagement, that's what it is—and overexpansion."

Other former high-ranking Deak-Perera officials interviewed said that Leslie Deak antagonized his lieutenants with his abrasive manner and, worse, by abolishing the company's profit-sharing plan a few years ago. "People who were critical started to leave in droves—key people to the success of the company," said Glen Kirsch, former manager of Deak-Perera Washington. "Whatever Leslie touched turned to... well, not gold," said another ex-Deak executive. Leslie Deak refused to return my phone calls.

Besides a brain drain, Deak-Perera suffered from a drain of funds. Long before the crime commission report, knowledgeable sources say, competitors had been sapping the deposits that had long been the mainstay of Deak-Perera's corporate finance: "flight capital" that nervous Latin American investors wanted to get out of their unstable countries.

At the same time, the company, still trying to expand, was hit hard by the collapse of gold and silver prices in the early '80s. Adding to Deak-Perera's woes, noted former Deak officials, was the invasion of its traditional foreign-exchange preserve by giants like Bank of America and Citicorp, which bid away many of the company's treasured airport locations.

Whatever the reasons, it's a sad fate for a great company and its fascinating founder.



DITH PRAN/NEW YORK TIMES

Nicholas L. Deak: He began his foreign-exchange and precious-metals empire in 1939. Today, creditors are fighting over the spoils.

Nick Deak, a vegetarian who at age 80 still runs five miles a day and as chairman remains the company's ultimate decisionmaker, always seemed to personify the American ideals of individualism, entrepreneurship, and defiance of intrusive government. Above all, Deak stood for sound money. A long-time advocate of the gold standard, he was one of the first, beginning in the 1960s, to recommend "hard money" investments such as gold, silver, and Swiss francs. The hallmark of the Deak-Perera Group—lending a certain irony to some of the current charges against the group—was its commitment to protecting its customers' assets and their financial privacy.

Deak began his empire in 1939 after emigrating from Hungary. There he had studied international trade and finance at the Royal Hungarian Trade Institute before taking a doctorate at the Swiss University of Neuchatel and serving in the Economics Department of the League of Nations in Geneva.

Soon after beginning his foreign-exchange business in New York, war broke out in Europe and Deak joined the US Army. He quickly came to the attention of the infant Office of Strategic Services (OSS), predecessor to the CIA.

For four years he used his linguistic and paratrooper abilities in the service of "Wild Bill" Donovan on dangerous missions in the eastern Mediterranean and the Far East. As a major, he personally accepted the surrender of Japanese troops in Burma.

In another exploit he likes to recall, Deak masterminded and carried out the wholesale smuggling of

some 1,000 railroad freight cars out of Russian-occupied Hungary to the West at the end of the war. Later, such tactics were to be used in the service of Deak customers who wished to remove their money from economically or politically inhospitable countries.

In 1946 Deak restructured his foreign-exchange firm and incorporated as Deak & Co. A few years later he acquired his major competitor, the Perera Company, which had been the number-one name in foreign exchange in Latin America. By 1967 Deak had bought a small-town bank in upstate New York and changed the name to Deak National Bank; had broken into the preserve of the "Swiss gnomes" by opening his own bank in Zurich, Foreign Commerce Bank (affectionately known as Foco Bank); and had bought a bank in Vienna, changing its name to Bankhaus Deak (since folded into Foco Bank).

Meanwhile, Deak was opening foreign-exchange offices all over the country and around the world. These offices bought and sold banknotes from nearly every country on earth and handled remittances, foreign collections, and other international transactions at a fraction of the cost charged by most banks.

Over the years, Deak was the first to introduce many financial services. Its airport offices pioneered currency vending machines. Along with conventional services, Deak National Bank offered certificates of deposit denominated in foreign currencies, checking accounts denominated in gold or silver, gold- and silver-collateralized loans, and "OMNI" checking accounts, by which checks could be written in any currency.

When gold ownership by US citizens was legalized in the mid-'70s, Deak-Perera quickly geared up to meet the growing public demand for bullion and bullion coins. Later it began a precious-metals certificate program, allowing investors to buy a specific but undivided interest in gold or silver (and later platinum and palladium) stored in Switzerland or Delaware.

△ □ ○

Deak-Perera also became renowned for its ability to move money through a variety of often byzantine "blocked fund" transfers to get around foreign governments' currency restrictions. But Deak's methods have occasionally landed him—or at least his employees—in trouble.

In the early '70s, it was Deak-Perera that acted as a conduit for $8.3 million in bribes paid by the Lockheed Corporation to Japanese officials. The scandal, which resulted in 1983 in the criminal conviction of former Prime Minister Kakuei Tanaka, demonstrates what a former employee termed the elder Deak's "cavalier attitude" toward the law and his "ruthlessness."

When a priest who was acting as the courier for Deak was finally caught carrying the Lockheed payments into Japan in a flight bag and appealed for help, Deak's Hong Kong office telexed Deak in New York. A former Deak-Perera Far East employee told me that Deak telexed back, "Tell him we'll pray for him."

In 1978, Deak again escaped personal responsibiliity for his underlings' actions when a vice-president in one of Deak-Perera's offices was convicted of failing to report large currency transactions, as required by federal banking regulations.

So it was little surprise when it was charged last year that Deak-Perera had failed to report millions of dollars' worth of alleged cocaine profits it received as deposits. "Deak has an OSS mentality," said one former manager. "The ends justify the means."

Libertarians may smile on infractions of federal currency-reporting requirements and regulations governing who may and may not accept deposits. But less savory is the possibility that Deak-Perera misappropriated customer funds.

The Hong Kong government has issued a warrant for the arrest of Nicholas Deak and Otto E. Roethenmund, president of Deak & Co., and is seeking extradition. Anthony Pong, former manager of Deak-Perera Far East, was arrested in March and charged with accepting deposits in contravention of Hong Kong law.

In fairness to Deak, it was well known that the company had been accepting deposits in Hong Kong for years, and the Hong Kong government looked the other way. So the British colony's belated action amounts to an effort to appease a hornets' nest of Deak depositors.

Well they might. For when Deak-Perera Far East shut its doors the day after the US company filed for bankruptcy, an estimated $25-$30 million in customer funds were put out of reach of furious depositors. And knowledgeable sources charge that some of those monies had long since vanished—drained out of Hong Kong into Deak's US operations.

What's more, reports from Hong Kong quoting government officials there raised fears that investors who had bought gold and silver through Deak-Perera Far East's independent precious-metals certificate program would lose their investments. Because the metals are registered in Deak-Perera's name, the officials said, they might be subject to seizure and sale to meet the company's general obligations. Before Hong Kong officials decided otherwise, such speculation gave rise to an exodus from Deak's much larger US certificate program.

James Hildebrandt, senior vice-president of Deak-Perera Washington, in a December client letter, assured certificate holders that "the metal is your asset, not ours, we are merely your custodian. Therefore, in the unlikely case that we were to become involved in the (bankruptcy) filings, your metals would be free from the claims of our creditors." Nevertheless, at the urging of competitors and many investment advisors, at least 1,000 of an estimated 15,000 investors are believed to have cashed in their certificates or taken delivery of their metal.

Similar assurances have been given by Foco Bank, which is 86 percent owned by Deak & Co. and 9 percent owned by Nicholas Deak and Deak & Co. president Roethenmund. "Foco Bank and its affiliated banks are in no way affected by the insolvency of their majority shareholder, and there are no financial obligations of any kind between them and the Deak group companies in question," stated a press release the bank issued last December in Zurich.

And Erich Stoeger, manager of the Vienna branch of

Foco Bank, told me that Deak creditors can only press for the sale of Foco Bank stock held by Deak & Co. in order to raise cash and to get compensated for their claims. On Foco Bank, he noted, "this has the same impact as if some Citibank shares on the stock exchange change hands, but definitely not more."

Nevertheless, sources say that Foco Bank has been hit by a run on its deposits of some proportions. Although the bank has a sterling reputation as a profitable, well-managed institution, many depositors fear the Deaks (or a court-appointed trustee) may find a way to tap its assets.

A number of bids to buy Foco Bank have been reported, and others have been rumored. "Every day that goes by, it's worth less and less," observed a former top corporate officer in the New York headquarters.

The connections are complicated. Within the last two years the Deaks sold 49 percent of Deak-Perera U.S., which runs the company's retail currency and precious-metals operations, to Foco Bank to raise funds. "If Deak & Co. owns 100 percent of Foco Bank and Foco Bank owns 49 percent of Deak-Perera U.S., it's not really an arm's length deal," averred a former financial officer for the company. "Maybe there's a way (for Deak & Co.) to free up some funds from Zurich." And that's what worries many depositors.

But most observers agree that it was the company's apparent inability to tap Foco Bank to compensate for the loss of other sources of money that led to the bankruptcy filing in December. Sources close to the Deak operations claimed that the supply of Latin American funds being funneled into Deak-Perera U.S. had long since started to dry up—falling from $40-$60 million several years ago to below $5 million in the last year, according to one estimate. The crime commission report and the attendant adverse publicity came out long after the Latin American well ran dry, these sources said. "If you examine the books, the money was leaving in droves before that ever came out," said one.

One former Deak officer attributed the loss of funds to new competition, including former Deak employees, and to Deak-Perera becoming "less flexible in their dealings with the *cambio* (exchange) dealers, so they started looking elsewhere to place their money." In fact, a sort of managerial hardening of the arteries seems to have set in throughout the company.

Ironically, the ex-Deak employees I talked to uniformly asserted that the rigidity and skin-flintedness came with the passing of the mantle of control to young Leslie in 1980. Beginning about that time, former managers said, day-to-day decisionmaking was increasingly centralized in New York and Leslie Deak. Instead of everything flowing up from relatively independent offices, everything now flowed down. The local managers were also removed from the board of directors.

"The company was always able to innovate, because we didn't have a lot of restrictions on us," said one former manager. "But over time we were left with the responsibility, but they took away our authority to innovate. Everything was supposed to come down from the top, and there were no ideas coming down from the top. They got bogged down and were not able to innovate in the foreign-exchange and precious-metals group" (Deak-Perera U.S.).

Another key element of the Deak-Perera organization had always been its compensation package. Managers earned relatively low salaries but were rewarded with a share of the profits (15 percent) if the company was successful. But Leslie Deak began phasing this out in 1981 and eliminated it entirely in 1982, insiders say. "Leslie made a big mistake by taking the incentives away," said one former manager, "because the people who made the company a success over the years left."

"Right now they need their experienced people the most," remarked Glen Kirsch, who developed the company's tremendously successful precious-metals certificate program and now runs a precious-metals firm in Virginia. "And where are they? They're in competition with them."

Along with the loss of managerial talent and sources of financing, Deak-Perera was beset by a host of other problems in the '80s. The company had faced changing market conditions before and adapted to them, but this time Deak-Perera failed to do so.

Large banks began getting involved more heavily in the wholesale banknote business. Worse, they began outbidding Deak-Perera by large margins to run foreign-exchange concessions at key airport locations in order to gain a foothold in those cities in anticipation of interstate banking deregulation. Deak-Perera is already out of the airports in Los Angeles, Miami, Honolulu, and San Francisco and may soon be out of others as contracts come up for renewal.

Another major problem was overexpansion in the teeth of a collapse in the prices of precious metals, which had become one of the company's staples. When precious metals began their big run-up in the late '70s, Deak-Perera responded by expanding existing offices and opening new offices in such unlikely places as Denver, Las Vegas, and San Diego. Expensive computer equipment was bought, and scores of new employees were hired to make "cold calls" to potential clients and to handle an increased volume of paperwork. But when gold and silver peaked in early 1980 and began their steep decline, Deak-Perera found itself unable to retrench fast enough.

Finally, former top company officials said, much money was wasted on what one called "feeble attempts at getting into other areas," such as securities and commodity futures. "So much of what they told us to do was totally nonprofitable," winced one ex-Deakette.

Certainly it didn't help that the federal government spooked some of Deak-Perera's customers, but the bottom line to the company's downfall seems to be as former Deak manager Kirsch stated it: "It was decay from within, and it was just a matter of time." ◻

Steve Beckner was the editor of Deaknews *from 1976 to 1981. He wrote "Making Money from Sound Money: The Nicholas Deak Story," in* REASON*'s June 1977 financial issue. He has been a financial reporter on the staff of several newspapers, most recently the* Washington Times, *which he left recently to pursue free-lance writing.*

When Ron Paul was elected to Congress in 1976, he immediately established a reputation among his colleagues as a man who would not "deal" in pork-barrel issues. For him, there is a clear distinction between right and wrong in public affairs—and taxing, spending, and regulating are wrong.

During four terms in Congress, Paul attracted national attention several times on issues related to monetary policy, the Federal Reserve, and the International Monetary Fund. He was a member of the US Gold Commission in 1981-82 and was responsible for its single affirmative recommendation: a US bullion coinage to compete against the paper system that he believes ultimately will collapse.

Although no longer a congressman, he is still very active in politics as chairman of the Washington-based Citizens for a Sound Economy, a public-interest lobbying organization working for free trade and deregulation. He is also publisher of the **Ron Paul Investment Letter,** *a monthly source of news and commentary about misbehavior on Capitol Hill and its economic consequences. His favorite project, however, remains his Foundation for Rational Economics and Education, which sponsors educational programs each year for congressional interns and publishes educational materials directed toward the basic distinction between right and wrong in government.*

Paul still participates to a small degree in the medical partnership he helped to found before he ran for Congress, but the prohibitive cost of medical liability insurance is a disincentive to resumption of that career, he says.

Contributing Editor Joe Cobb interviewed Paul during one of the former congressman's frequent visits to Washington from Lake Jackson, Texas, where he lives with his family.

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reason interview

Ron Paul

Reason: How does it feel not to be in Congress any more?
Paul: It feels like I have been let out of prison. I'm delighted not to have the restrictions and restraints that public office puts on an individual. I feel much freer to voice my opinion and to run a schedule more on my own. I can still be politically active, but at the same time I can now do things like practice medicine and do some writing.
Reason: You've launched a new venture, *The Ron Paul Investment Letter.* How is that going?
Paul: Very well. It's a Washington-insider approach to investments, and it doesn't pretend to tell people how to make a million bucks on trading stocks. I started it the end of last year when I was leaving Congress. Other newsletter writers said, "Hold off. This is the worst time to start something new. Nobody's getting good responses. Direct mail for hard-money newsletters is just disastrous." But in spite of a negative market, the letter has done exceptionally well so far.
Reason: Now that you're out of Congress, haven't your inside sources sort of dried up?
Paul: What I have found, which is interesting, is that if you're a congressman, some very useful information is withheld from you *because* you're an official. Now that I'm out, there are individuals who know what's going on and are calling me to say, "Look, don't tell anybody where you got this information," and they're anxious to get some useful information out to promote their own particular cause. So in some ways, it's *easier* to get information that I wasn't able to have before—but it's also a challenge to keep getting the right information.
Reason: How much of your time do you spend traveling around the country talking, and how much in Washington?
Paul: I spend probably half of my time in Lake Jackson, Texas—that's where my family is—and the other half is on the road and in Washington. A lot of my traveling is to make speeches on the hard-money issue. I was closely associated with that issue when I was in Congress and a member of the Banking Committee. Promoting a sound monetary system is really one of my first loves.
Reason: When was the last time that you had a real close sit-down session with Paul Volcker [chairman of the Federal Reserve]?
Paul: It's been a while now. But toward the end of the congressional session last year, he appeared before the Banking Committee. Over the years, I and other Banking members would go to the Fed and have breakfast with him, and he was always very accommodating in our discussions.
Reason: He's looked upon by so many people as being a brilliant figure who saved the American dollar and solved the inflation problem. What do you think is *really* his secret?
Paul: Well, I think his first secret is that he's six-feet-seven and he's very intimidating! He scares everybody to death because of his size. But, more seriously, I think it's because he's a good monetary technician and understands government manipulation of money. He was called in to do a job at a time when the dollar was being rejected as a sound currency, and in a technical fashion, I think he's been able to achieve a lot.

I know a lot of hard-money people think that he doesn't have a lick of sense, but I don't believe that's true at all. I think he's very capable. It's the monetary system that he endorses and advocates that is unworkable.
Reason: If you had the chance to give advice to an international conference of central bankers—Volcker and his counterparts in other countries—what kind of reform or changes would you propose?
Paul: Well, in the first place, I'd probably be very hesitant to go to any type of international conference like Bretton Woods [where 45 nations, led by British economist John Maynard Keynes, drafted an agreement in 1944 to establish a new international monetary system no longer based on the gold standard]. I think it would give too much credibility to the idea of politicians getting together and contriving a political system of money. But it would be a different story if it were a conference organized to move toward sound money based on a free market, which would mean you eventually wouldn't have any regulations at all—if you have an international currency such as a gold ounce, you really don't have to have any *exchange* rates. So I would only go to a conference where they would be thinking about positive changes like abolishing central banking and instituting a monetary system where a monetary unit is defined as a precise weight of a precious metal.
Reason: The whole idea of abolishing central banks sounds terribly radical and irresponsible. Most people who hear that sort of line can't take it seriously. How do you answer them?
Paul: There are two answers. One is to throw it right back in their laps and ask, "Could abolishing the Fed be any more chaotic than the Great Depression of the '30s," which the Fed brought on? Could it be any worse than the repeated recessions and the worsening conditions that we have now? Every time we have a recovery, the base unemployment rate keeps going up. Every time we have a reacceleration of price inflation, it's always higher than before. In every new cycle we have, both the peaks and the bottoms of interest rates are worse than before. So at the rate we're going, our next recession, which is going to come in another year or so, is going to be much worse than the devastating recession of 1982-83. So to anyone who thinks that getting rid of the Fed is a radical and a dangerous idea, I would say it's radical, dangerous, unconstitutional, and immoral to allow the Fed to continue to exist. But this isn't enough of an answer to really satisfy every-

body. You also have to come up with practical transitions.

Reason: Like what?

Paul: Take mail service, for example. You could abolish the Post Office in one day, and it would probably take a week or two for the private sector to begin to take over. But you wouldn't *need* to abolish the Post Office in one day. You could just legalize its competition, and it would be a matter of time until the Post Office would probably be out of business. You could then close it down without any disruption at all. I think you can do some things like this in other areas. For instance, the Social Security system could be phased out with voluntary retirement programs. And in money you can do this too—you can develop competition in money. A few years ago, that sounded strange to a lot of people, but economists like F. A. Hayek and others have given it intellectual credibility. These days, we're getting a fair number of people in Washington to agree that you can legalize competition. That would mean altering the legal-tender laws, allowing people to settle contracts with gold or silver or whatever their contracts might be drawn up in, and moving toward a gold-bullion coin.

Reason: Ever since the Gold Commission of 1982, you've been a major advocate of a United States gold-bullion coin. What's currently happening with that?

Paul: Things are moving along. There are well over 100 congressional cosponsors of the gold-coin bill, and there are some good coalitions that have developed. Liberals as well as conservatives now are in favor of the gold coin—not always for the same reasons, but in politics, you take your supporters wherever you can get them. Some liberals support the gold coin mainly because they want competition with the South African krugerrand. The competition argument also has appeal for the free-market people who aren't anxious to impose economic sanctions against South Africa or ban the krugerrand, but who are quite willing to give South Africa competition.

And remember, putting out gold coins would be legalizing something that the American people want. They are buying hundreds of millions of dollars' worth of foreign coins every year. Some people point out that US gold coins could contribute to a positive balance of payments for us, since many of the dollars that are used to buy these coins would stay here.

To me, a gold-bullion coin made here would be another positive step toward competition among currencies. If gold is an alternative currency—and if we do have a breakdown of banking and currency transactions in this decade—then the more people who hold gold, the better off we're going to be.

"If we have a breakdown of banking and currency transactions in this decade, the more people who hold gold, the better off we're going to be."

Reason: So you think gold coinage is a long-term alternative to the Federal Reserve?

Paul: I think it truly is. I'm willing to let gold compete with paper. You know, I don't think we have to beat people over the head to use the gold if they don't want to—let them use Federal Reserve notes forever. But I think gold is going to win out.

There's one project I've been working on for a long time—it should jell this year—and that's bringing together all the factions that are concerned about the Fed's policies. There are a lot of different people who are unhappy with the Fed—liberals and conservatives, populists and libertarians. I would like to bring them together under a banner called the Committee to Abolish the Fed. The reason I like this idea is that you state very clearly that the enemy is the Federal Reserve System. It's the *Fed* that accommodates Congress's wild spending on welfare and warfare by printing money. The Fed is very necessary for the politician, but the Fed is itself a big part of the problem, because it creates the money and the business cycle. What we need is to abolish the Fed, not just to reform it.

Reason: Do you think this can take hold politically?

Paul: We already have a broad-based coalition in support of the gold coin. I think we can get a lot of groups to come together. For instance, farmers are suffering right now, and they're sophisticated enough to realize that monetary policy has a lot to do with their problems. They are not very anxious to admit that farm subsidies also have something to do with their problems, but they do understand that part of the blame belongs with the system of money that brings interest rates of as much as 21 percent.

Reason: When you were in the House, how did you get along with other members of Congress? For example, what about Henry Gonzalez, who's a strong advocate of abolishing the Federal Reserve and wants to replace it with an inflationary greenback agency that's run by the Treasury?

Paul: We never got into a debate on alternatives to the Fed, but Henry Gonzalez might be a supporter of the Committee to Abolish the Fed. In a way, he and I make strange political bedfellows. Gonzalez is from a military town—San Antonio—and he's a liberal welfarist, one of the biggest spenders in Congress. On the other hand, I don't believe we should be arming the world and running an interventionist foreign policy, and I'm in favor of individual freedom and only minimal spending by government. And so, of course, we're on completely opposite ends of the spectrum. Yet Gonzalez was a very good friend of mine. We served on the Banking Committee, and we frequently worked on legislation together. He was a cosponsor with me of a bill to audit the Fed, and we worked together on gold issues. We were also together in our opposition to some of the shenanigans going on with the IMF (International Monetary Fund). So even though Gonzalez is a liberal, he saw many things from a liberal view the same way I saw them from

the more libertarian view. He understands the large banks and their control of the monetary system, and that distinguishes him from some other liberals in Congress. You can build a coalition with people like Gonzalez.

Reason: When you were in Congress, how much direct contact did you have with Tip O'Neill?

Paul: Essentially none. I didn't trade votes, so I didn't deal in the legislative process.

Reason: Was it an easy thing for you to be as independent as you were?

Paul: It was never easy to stand alone, from the first week I was in Congress to the last. It was never easy to stand out and imply, with my solitary vote, that 434 of my colleagues were wrong, even when I didn't actually say one word. I was virtually pointing my finger at them, saying, "I know what's right, and I'm voting by myself."

Reason: When these guys are spending billions and billions of dollars, does it really ever occur to them that they're spending other people's money or doing anything wrong?

Paul: No, no, they think only that it's the government's money. Their attitude is that if you cut taxes, it's a loss to the government. They don't see that it's returning something that belongs to the taxpayer.

One example that I saw was in 1980. In order to punish the Soviets for invading Afghanistan, President Carter said the Olympic athletes couldn't go to Moscow. And in true American fashion—again, not recognizing who the government really is—Congress decided that, in order to make the athletes feel better, the government would give each athlete a gold coin to compensate for the lost trip. A vote came up on the House floor, and during the debate, I thought about the Davy Crockett quote that tax money isn't theirs to give. I was sitting beside a congressman from New York who was one of the wealthiest members of Congress. I leaned over to him and asked, "What right do we have to do this? If each member of Congress gave $100, we'd have enough money to reward these athletes if we feel it's so important." He casually looked at me and said very nonchalantly, "It really isn't worth it." I think that tells you a lot. It wasn't worth it for this multi-millionaire to give a hundred bucks, but it was worth it for the taxpayer to sacrifice.

Reason: You're chairman of the board of directors of a group called Citizens for a Sound Economy. Tell me a little bit about this group.

Paul: It's a group based in Washington aiming to counteract one of the anti-market ideas that Common Cause and Ralph Nader have promoted over the years, which is that government regulations are the protectors of consumers. We're convinced instead that the free market is there to serve the consumer, not primarily business people or labor. It's really the best consumer protection around.

Right now, Citizens for a Sound Economy is concentrating on three free-market issues: tax reform, Individual Retirement Accounts, and free trade. We have 32,000-33,000 individuals who have put their name on the line and identified with us, and that's a very good start. But it's going to take at least a couple of years to be as effective as the liberals have been, and it really does depend on how well we do the job.

Liberals have a knack—and it's a very positive political knack—for coming across as the ones who are concerned about people and their welfare. But the plain truth is that liberal programs *don't* protect people's welfare. Many people suffer as the result of an inflationary intervention philosophy. So I don't think that liberals' approach is humanitarian, nor do they really take care of people. Meanwhile, one of *our* shortcomings is that although we talk a lot about profits and accumulating wealth, we fail to point out that letting the market work is also a very practical, humanitarian approach to society.

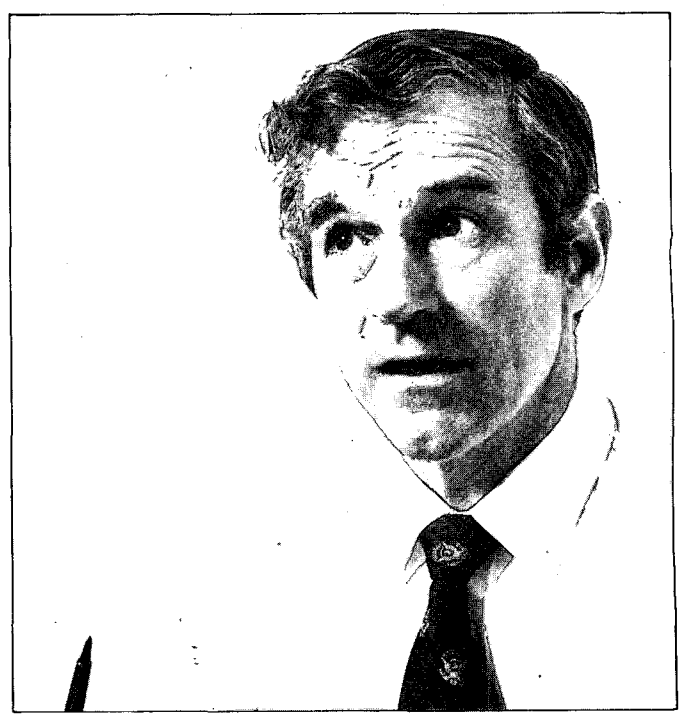
Reason: Do you ever let your imagination wander? On all these airline flights that you take, do you ever fantasize about how you'd like to see Washington or the country change?

Paul: Yes, I have two fantasies. The more ambitious one is in a picture I have hanging in my office and had in my congressional office all along. It shows the Capitol, but there are no buildings around it—just a pasture with cows grazing. I think that would be a far better use of the land than all of those buildings filled with tens of thousands of bureaucrats. That's one fantasy, but since I'm not a destructive individual and I don't want to blow up the buildings, I don't want to go quite that far.

My fantasy short of that is to auction off the government buildings to private enterprise, with me as the auctioneer. I'd go down in front of Health and Human Services, then over to the Labor Department building, then down the street, and all of a sudden, we would have disposed of all the buildings and reduced government by 80 percent at least.

You know, in my little farewell speech on the House floor, I confessed that I am not an anarchist, but during my seven years in Congress, my disdain for big government grew considerably. I went from a National Taxpayers Union rating of 82 percent to 99 percent, which meant that I was disapproving of nearly all the expenditures that came before Congress.

But, quite frankly, I am satisfied in my fantasy to be auctioning off 80 percent of all the government buildings. I think that if I could do even that much, I would do the country a great service. ◻



"The enemy is the Federal Reserve System —it's the Fed that accommodates Congress's wild spending on welfare and warfare."

By Walter E. Williams

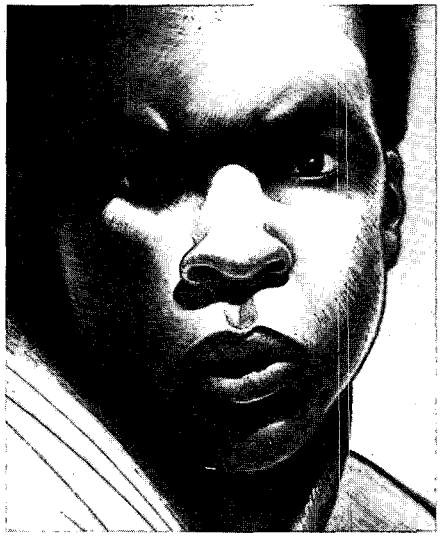
Uncle Sam's Economic Racism

William Raspberry, the syndicated columnist, recently wondered why, in the face of rising economic vitality, unemployment among blacks is increasing. "Not only does no one seem to know," Raspberry wrote, "but the government seems uninterested in finding out."

Raspberry has it all wrong. We *do* know why many blacks are immune to economic prosperity, but few people—particularly black politicians and civil-rights organizations—are willing to heed. Furthermore, there may be little political payoff for policies to ameliorate the plight of the most desperately needy blacks.

For more than a decade, economist Thomas Sowell and I have been pointing out how the public-education establishment wantonly destroys the career chances of many blacks. We have argued for educational vouchers or tuition tax credits as a way out of the mess. Instead, black leaders called for higher educational budgets, higher teacher pay, and busing. Their response to achievement-test scores showing blacks three to five years behind the national norm and to blacks' aptitude-test scores 100 points below the norm has been to call the tests racist. The NAACP's and Urban League's response to campaigns for competency testing of teachers and students was the same—"racism."

Another fact of black existence is a crime rate that is just like a law mandating, "There shall be no economic development in black neighborhoods." A tiny percentage of the black community makes life a living nightmare for its law-abiding majority. These thugs make economic activity a costly proposition for white *or* black merchants. Places that were once bustling economic centers in black neighborhoods, such as 125th Street in Harlem, are now wastelands. Black residents who once shopped in close-by neighborhood markets must now trek out to suburban shopping malls. Schools in black neighborhoods have become centers for holdups, murder, and wanton property destruction. Over 50 percent of US homicide victims are blacks murdered by blacks.



DAVID NECKER

All this devastation brought to the attention of black leaders, politicians, and civil-rights organizations evokes one response: "Blaming the victim!" Crime is the result of a racist society, they say, never bothering to explain why blacks were more secure and experienced more economic vitality in their communities in *earlier* periods. So for fear of being labeled a racist, white politicians say or do little about crime in black neighborhoods, so long as it's black on black.

The causes of black unemployment are no mystery. Black teenage unemployment is at an unprecedented 47 percent, and over 70 percent in cities like Detroit. Black adult unemployment stands at 16 percent. Immunity to recent economic growth is not a result of any single factor—it is part of a general pattern of carrots and sticks.

First, the carrots. Government programs—unemployment compensation, food stamps, and welfare—make unemployment less painful. We all know that if something is subsidized, be it wheat, cheese, poverty, or unemployment, we can expect more of it. Poor people are like the rest of us: they respond to incentives. Why give up $10,000 a year in nontaxable welfare benefits for a job paying $6,000 or $7,000 a year that's taxable?

Then there are sticks. The minimum-wage law acts as an effective barrier to jobs and training prospects for low-skilled youths. Prior to the minimum-wage escalation that started in the '50s, unemployment was *less* among teenage blacks than whites. Blacks in *all* age groups were *more* active in the labor market than whites. This was before black politicians did the political bidding of labor unions who sought to restrict employment in order to get higher wages for union members. The *quid pro quo*: black politicians get political backing from labor unions, and black people get the unemployment line.

Moreover, governments at all levels enact more and more regulatory legislation, such as exclusive collective-bargaining laws, occupational and business-licensing laws, child-labor laws, and many forms of wage regulation—all of which further restrict the labor market. And a lot of this was done or maintained with the support of black politicians and civil-rights groups.

Unlike my friend Bill Raspberry, I see no mystery that a person who's received a grossly fraudulent education, lived in a neighborhood rife with crime and social disorder, resided in a single-parent household, learned the ways of welfarism, and faces laws that require an employer to pay him more than he's worth (or not hire him at all) is immune to economic prosperity.

But again, what's the political payoff for a politician to do something about it? President Reagan has resubmitted his proposal to permit teenagers to work for less than the minimum wage, thereby creating more employment and greater job-training opportunities. To the Black Caucus, the NAACP, and the Urban League, the proposal is mere reconfirmation that Reagan's a racist. Reagan also calls for deregulation, yet black leaders see this as insensitivity.

Black people do not deserve their political leaders—leaders who support economic dependency. Should Raspberry, or anybody else, be surprised to find many blacks addicted to welfare and immune to economic growth?

Contributing Editor Walter Williams is John M. Olin Distinguished Professor of Economics at George Mason University in Fairfax, Virginia, and the author of The State Against Blacks *(McGraw-Hill, 1982).*

How to Overcome Your Fear of Public Speaking, Flying and Other Phobias in Minutes

You Can Now Cure Your Phobias and Fears in Five Minutes or Less with Powerful New Treatment Praised by Prominent Doctors

Your heart is pounding, your palms are sweaty, and the old self confidence that got you this far in life has suddenly disappeared.

You are about to make a speech to a group of people in your industry. You thought you knew exactly what you wanted to say. And it sounded fine when you rehearsed it at home. But somehow you know it's not working. You can tell you are losing your audience with each word you say. This feeling is devastating to those who fear public speaking the most. Sound familiar?

If so, you have plenty of company. The most common fear is speaking before a group. According to a survey published in Current Opinion, Americans are more afraid of public speaking than illness, poverty, and even death.

Any fear, when it is intense enough that it controls actions and behavior to any degree is considered a phobia by professionals.

Phobias are the number one mental health problem in this country today, according to the most comprehensive survey of mental illness ever done. The experts indicate nearly one in seven people have a phobia. However, overcoming a phobia has always been the toughest of all disorders to treat according to Dr. Darrel A. Regier, who headed the survey for the National Institute of Mental Health.

Phobias and fears so severe they control your life can take many forms. Flying, the second most common phobia, affects over 20,000,000 Americans according to a study done by Boeing. Other phobias include: heights, tunnels, elevators, open places, moving, impotence, animals, telephones, crowds, darkness, disease, ghosts, insects. There are presently 178 known phobias. And new ones are being identified all the time.

You no longer need to suffer. A new book, FIVE MINUTE PHOBIA CURE by Roger J. Callahan, Ph.D. provides the help you need.

The author suffered himself from phobias for many years. He was a phobic child. Even his doctoral dissertation was on childhood phobias. His search led to the Five Minute Cure which has produced dramatic results with over 1,000 phobics successfully treated over a five year period, with an 85% success rate. Dr. Callahan has been able to affect these cures safely and painlessly, and without drugs of any kind. Imagine—no more months or even years of painful and expensive treatment. It's no wonder many phobia sufferers try traditional treatment for a brief time and then give up in frustration.

What Doctors Say

"Five Minute Phobia Cure has been responsible for restoring normal lives to those who have been restricted and crippled by phobias." *Harvey M. Ross, M.D. Author of* Fighting Depression and Hypoglycemia *Los Angeles, CA*

"Having utilized Dr. Callahan's treatment with my own therapy clients, I am overwhelmingly impressed by its speed and effectiveness—far surpassing any phobia treatment of which I have knowledge." *Nathaniel Branden, Ph.D. Author of* Disowned Self and Romantic Love *Beverly Hills, CA*

"My patient had severe phobic response to dust and contamination for 35 years. Engaged in compulsive hand washing, clothing, surroundings 10-12 hours a day. Five Minute Treatment cured her." *Joyce Shulman, Ph.D. Beverly Hills, CA*

"Have found results of Dr. Callahan's . . . technique amazing. Patients leave office feeling euphoric. Extremely valuable technique for all members of the health care community." *Dr. James D. Hogg Rock Island, IL*

"These techniques for the treatment of phobias will undoubtedly require psychologists to re-examine our theoretical understanding." *Lawrence Onodo, Ph.D. Reseda, CA*

"Revolutionary treatment for phobias and tremendous adjunct to other therapies presently in use." *Luanne Ruona, M.D. Psychiatrist Author of* Total Glow *Washington, D.C.*

What Others Say

Public Speaking. "Was terrified of speaking. Now able to address executives without fear." *Vaughn E. Kraft Anaheim, CA*

Flying. "Flew home . . . took 10 hours . . . no longer feel nervous about flying." *Vicki Blair Perthshire, Scotland*

Elevator. "Tested results on elevator—feel none of the usual anxiety." *Linda Hall Long Beach, CA*

Heights. "Feared heights since childhood. Now able to look out a 9th story window without fear." *William Perry Anaheim, CA*

Water. "Was fearful of water. Was treated psychologically for 1½ years without change. Five Minute Treatment cured me at once." *Mary Ford Los Angeles, CA*

Spiders. "Had severe fear of spiders since childhood. After treatment could even play with toy spiders." *Deborah George Southfield, MI*

Heights. "After five minutes, my life long fear simply vanished." *Karl Hess Kearneysville, WVA*

Yes, the great news is that you don't have to live with your phobia any more. You don't have to suffer the rest of your life in silence. This incredible new cure takes only a few minutes and is totally painless! The publishers are so sure it will work for you that they offer a 100% money back guarantee on your modest investment.

And, it certainly appears the cure is lasting. Years have passed since Dr. Callahan treated his first patient. Those he still is in contact with show no recurrence of their phobias.

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By Timothy Condon

Prescription For Prosperity

"Mr. President! Mr. President!" The entreaty rings out among the surly snarls of the assembled press. The president pauses, turns his head, even while showing irritation at this typical display of boorish media aggression.

"Well, Mr. Condon, we've been trying to train you journalists in better manners since my first term." He pauses, displaying his famous aw-shucks half-grin, then continues: "But since you *do* speak for REASON, I guess we'll entertain your question."

"Mr. President," I answer, "meaning absolutely no disrespect to you or your office, I urge you, on behalf of everyone who believes in the future of capitalism, *ignore the deficit!* Continue with your tax-simplification program, but *cut taxes more!*"

A roar of disapproval rises from the assembled reporters. "Shut up, you idiot," snarls a *Washington Post* reporter. "Let's get the sonofabitch!" shouts a respected *New York Times* columnist. The Secret Service starts moving in, reaching for their pistols. Above it all comes the command from the president himself: "Let him alone. He's right."

And I wake up in a cold sweat, the sheets soaking wet. Did the president listen? *Would* he?

The two big political issues this year are cutting the budget and tax simplification. Both are intimately allied.

The struggle over setting the budget has come first. For the last two years that inane process, with a Congress to match, has extended right through to December with no resolution. For those who love the welfare state, this is fine: no budget resolution means, ultimately, a busted budget (that is, a budget with increased spending). True, Reagan is an even bigger social spender than Jimmy Carter was. But those seeking to scuttle Reagan's budget want to increase spending even more than he already has.

But there's something more important by far riding on the outcome of the budget battles: the fate of tax reform. I mean the prospect of *real* tax reform, not the vicious tax-raising slanders of the last 20 years. I mean a relatively *flat-rate* and relatively *simplified* tax system.

And I mean the prospect of further tax cuts.

If the budget is busted, the already-bloated deficit, projected at $190 billion plus and changing almost weekly, will further mushroom. The Democrats, seeking Republican blood, will wail incessantly about the ballooning deficit (which they more than anyone else have created). With such rhetoric, they'll "draft" the GOP traditionalist, non-supply-side conservatives into the increased-spending orgy. Weighted down with conventional, static economic assumptions, these traditionalists will turn against and scuttle any tax-simplification, "revenue-neutral" plans—not to mention any tax-*cut* plans lurking around—all in the name of "fiscal prudence."

Therein lies the real struggle, for budget-busting is also useful for blasting tax simplification and tax cuts out of the water. Why would someone want to do that? Because (1) tax cuts mean to welfare statists that government won't have the power (read "money") to do all those good things for us; and (2) tax simplification and further tax cuts could mean an explosively expanding American economy, thus benefiting . . . Republicans. (Don't take my word about such economic growth. Just look at the economy of Japan since 1945, *which for 23 out of 25 postwar years cut taxes.* Look at Singapore, Taiwan, Hong Kong.)

What about the deficit? everyone wants to know. At this point, the deficit must be put on the back burner. *It is smaller now as a percentage of US GNP than it was at the end of World War II, and it is smaller now as a percentage of GNP than Japan's has been for most of the postwar years.*

What will happen if Congress scuttles the Reagan budget and prevents tax simplification? America's economy will slow through the last half of 1985 and into 1986, perhaps even begin to contract. The Democrats can then call the result of their work "the Reagan recession" and run against it, picking up further strength in the House and possibly seizing control of the Senate once again. With a *solid* majority in the House and a working or real majority in the Senate, the Democrats can then block any economy-saving attempts—that is, further tax cuts and simplification—in the last half of the Reagan administration. Armed with the resulting economic shambles, which will be blamed on "the free market" and "disproven supply-side economics," the Democrats will then be in a position to mount a serious effort toward expanding the welfare state, implementing an "industrial policy," and on and on.

If the administration is to resist that tide of events, Reagan must ignore the deficits. And he can't be satisfied with just "simplifying" taxes with a milquetoast "revenue-neutral" bill. He's got to move decisively and cut taxes further this year. Those who think such a move would wreak havoc are prisoners of static assumptions. Workers and taxpayers do not stand still, and changes in tax complexity and marginal tax rates make them move faster than anything else. To understand the very basic truism that people react to different tax rates—and this is the theoretical foundation of all of supply-side economics—is to throw off the voodoo curse of static assumptions and unreasonable fear of deficits that can prevent this economy from taking right off.

If Reagan moves decisively now to simplify the entire tax system *and* to reduce marginal tax rates to a *flat-tax percentage even below* the currently proposed rates of 30 or 25 percent, American history will witness two momentous events. Economically, there will be a burst of growth, productivity, and entrepreneurship such as this country has never in its history seen. Politically, the American people will support in the 1986 elections and beyond candidates committed to furthering the incipient supply-side revolution.

The resulting explosive economic growth will pave the way, throughout the remainder of the 20th century and into a good stretch of the 21st, for the forces of capitalism and freedom.

Tim Condon is an attorney and tax specialist practicing in Florida.

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By Patrick Cox

Entrepreneurs' Entrepreneur

"Not too many years ago," Joseph Mancuso says, "the word *entrepreneur* did not enjoy the relatively positive connotations that it does today. The line between the con man and the entrepreneur was not very wide. Only 25 years ago, to be called an entrepreneur was to be called a hustler."

Mancuso is the founder and president of the Center for Entrepreneurial Management (CEM), the world's largest membership organization for entrepreneurs. So he's somewhat of an entrepreneur himself. Founded in 1978 in Massachusetts, the organization is now based out of Mancuso's home in Manhattan. It provides numerous practical services for over 3,000 members, but the organization is also something of group therapy for entrepreneurs, still an unusual and often misunderstood fellowship.

Mancuso's motto is: "It's all right to be independent, but there's no reason to be alone." And it is through providing a sort of "information middleman," as Mancuso puts it, that CEM offers one of its most valuable services—helping bridge the gap between the infant, start-up company and the viable small business. It is here that many entrepreneurs flounder, for lack of management skills. Mancuso's organization puts them in touch with others who have made the passage safely and helps them develop specific business plans, getting it all down on paper.

Entrepreneurs are not a particularly happy lot, Mancuso says, pointing out that many people who are very good at making money are not particularly good at spending or enjoying it. Almost by definition, they are gamblers who lose on occasion. Mancuso's own hero is William Crapo Durant, the man who started General Motors. Durant went broke three times in the course of his life, lost GM, bounced back, and bought it back before losing it again to die in poverty.

So what is Mancuso like? He is obviously an entrepreneur, since he perceived the need for an organization to serve that group and started CEM. But he is also an educator.

The center is really an outlet for his didactic skills. Born in Connecticut, Mancuso started out as an electrical engineer. He went on to earn an M.B.A. from Harvard Business School, and finally took his doctorate in educational administration at Boston University. He has been a department chair at Worcester Polytechnic, an engineering school in Massachusetts.

Joseph R. Mancuso

In addition, Mancuso has written 15 books on management and associated business and entrepreneurial skills. He writes regular columns for *Success* magazine and *National Business and Employment* weekly and has contributed to *Playboy* and *Harvard Business Review*. He has produced audio and video tapes on management and gives countless lectures. Mancuso also edits CEM's monthly newsletter, *The Entrepreneurial Manager*.

Of course, all this data doesn't say much about the kind of person that Mancuso is. But that is in part due to the fact that, like other entrepreneurs, his hobby is his business. Even his wife, Karla, is his business partner. Together, they attend every local meeting of another organization that he founded two years ago from the cream of CEM's 3,000 members—the Chief Executive Officers Club, with 210 members. CEO local meetings are held in San Francisco, Los Angeles, Boston, New York, Houston, Dallas, and Chicago, eight times in each city annually. That means 56 meetings a year.

Mancuso himself is delighted that the public has begun to value the role of the entrepreneur in society, though not to the extent that he believes is deserved. Some academicians, particularly those associated with the monetarist and Austrian schools of economic thought, have for decades pointed out the vital function that entrepreneurs play in a healthy economy. They are, perhaps, most responsible for the intellectual appreciation of the risk-taking individualists who start the businesses that are later bureaucratized and become institutions. Entrepreneurs are finally being credited with the new jobs they create and the new products they deliver to consumers.

Nevertheless, risking it all at the altar of consumer taste and preference is not a particularly pleasant way to spend one's life. Between projects, or after an unsuccessful project, the entrepreneur is likely to be viewed as unemployed or, as Mancuso says, "a bum." Often cursed with the temperament of an artist, entrepreneurs do not fit into the strictly scheduled routine of corporate life.

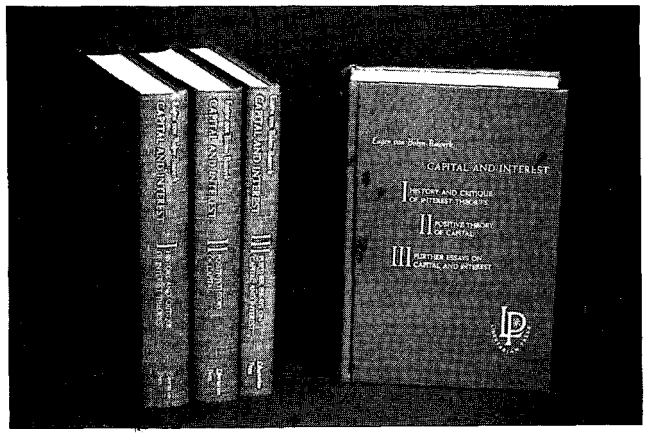
Mancuso spends considerable time reassuring entrepreneurs "that they are good people, valuable people." He says that more and more, the public is beginning to believe that too.

"Every society somehow conjures up a hero," Mancuso says, "someone who slays the dragon, unties the Gordian knot, finds the holy grail, frees the beautiful damsel in distress. Every society has them, but heroes have to leave society to do it. They are not like those who stay behind.

"All I'm trying to do is provide the entrepreneur with a road map to the dragon, a little drinking water, a few candy bars—and a telephone number. If the entrepreneur finds and slays a dragon, we ask him to come back and talk to a few others who are getting ready to go on their own quest. Even entrepreneurs can forget where they came from."

Patrick Cox is a free-lance writer.

Will Interest Rates Go UP . . . or Down?



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by Eugen von Böhm-Bawerk

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Hints for the Very Small Investor

By Stephen G. Barone

I become morose when I read magazines that give advice to the "small investor." It's just that what the investment mavens therein consider *small investments* is not what I would consider small. This might have something to do with my worldview and the worldviews of those with whom I am able to associate.

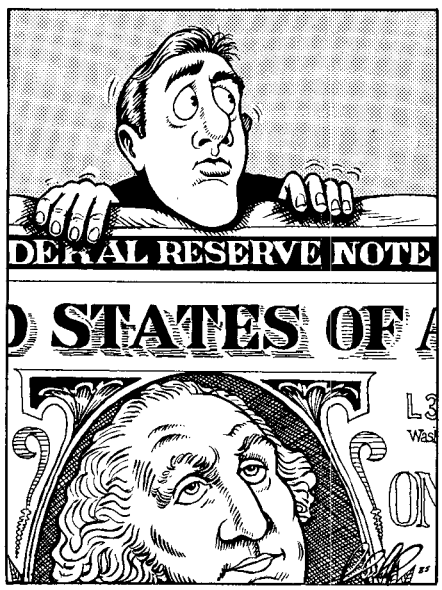
To me, a small investment is made when I decide to buy extra toilet tissue as a hedge against an upcoming price in-increase in aisle 3 at the grocery. Past that, a lot of my net worth is tied up in nonliquid intangibles, such as this month's rent and the first installment on whatever it is I lately owe to the paperboy. My latest acquisition in metal was a muffler and tailpipe for an aging 1969 Volvo, my most mature asset.

Tax-sheltering ideas such as *buy a condo and rent it to your brother-in-law* just cause my eyes to glaze. If I could get my brother-in-law out of my house, I would have bought him a condo years ago, tax shelter or not.

So in the best entrepreneurial spirit, I would like to fulfill what I see to be an informational gap for persons of my lowly ilk: an investment column for the unwashed masses, the *very small investors.* Here it is:

The economy is going to soon change dramatically and you're going to get royally screwed unless you do something really smart and do it fast. But let's face it, you probably won't. Two years from now you'll be reading ad copy for some investment newsletter, its author famous for predicting accurately the very trend which will be at that time eroding what meager buying power you might have today. Not to worry. You have one advantage: You have so little to lose that it's really not going to matter. The rich get poorer and so do the poor. Still, you might want to fight the good fight, so consider carefully the following advice.

If you buy gold its value will likely decline. If you buy stocks, the market will fold up. A move to diversify one's portfolio by purchasing both gold and



MICHAEL BEICKEL

stocks is generally followed by either (1) a *downturn,* (2) a *recession* or (3) a *depression.* These are all the same thing.

Decisions to buy stocks should be done scientifically, never emotionally. This requires explanation. A case of an emotional stock purchase would be if you continued to amass Chrysler stock throughout the middle 1970s just because your old Uncle Hubert used to work for them.

Better would be a scientific approach. There are two kinds. *Market analysis* requires the potential investor to carefully study sociological and demographic trends in order to better predict what goods and services will be in most demand and hence increase the values of their respective stocks. *Technical analysis* is a method by which stock performance is measured over time in order to ferret out a cyclical pattern that can be predicted and subsequently acted upon with little regard for other "softer" market indicators. Thus, foolish emotional buying would today leave you with a large chunk of Chrysler, while shrewd market analysis would have pointed the way to a large holding of Atari and technical analysis to a big stake in LILCO (Long Island Light Company).

Financial advisors often suggest that we carefully watch certain market sectors for discrete *uptrends* and *downtrends.* They postulate that it is only necessary to *get in* shortly after an uptrend starts and *get out* shortly after a downtrend begins. Unfortunately, this is more easily said than done, because very small investors tend to confuse the tops and bottoms of these trends. Hence, we are prone to doing things like selling our Wendy's to buy a nice big block of Continental of Illinois.

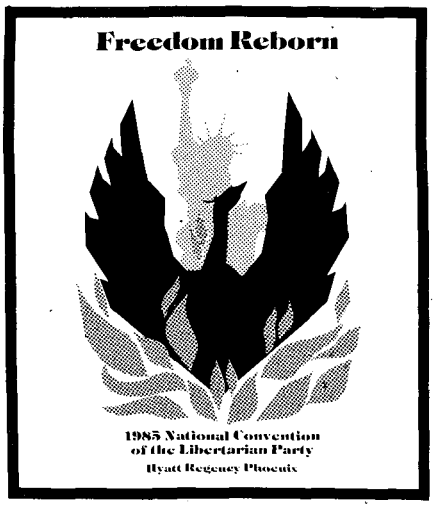
Another market strategy involves so-called *trend-bucking.* As the name implies, this strategy suggests that we buy and sell in the market in ways that are exactly opposite of what all common sense would otherwise lead us to do. This could often work, but it requires guts and stamina, which is often beyond the very small investor, whose backbone is often studied as a topic in invertebrate biology. Face it, if you were a trend-bucker, you wouldn't now be enrolled in break-dancing classes at a studio above your favorite sushi bar.

What about metal? you ask. Metal is the ultimate hedge against inflation, if you assume they'll be willing to take a krugerrand down at the K-mart so you can buy a new set of wiper blades for your Torino. Otherwise, this stuff is hard to store. You just can't tell the UPS deliveryman to put the two dozen ingots in the family room until you make room for them in the garage. You need a *depository,* which is a nice safe place to keep the metal until times get rough and the government comes to confiscate it.

An alternative that is often mentioned involves no actual delivery of the metal. You simply pay the money and are issued papers that assure you that you own the metal and that it's available on demand. If this sounds like a good idea to you, then I have some investment property in Arizona I'd like to talk to you about.

Next time, we'll talk about why I think US Savings Bonds and current-issue US postage stamps are the way to go in the future. In the meantime, remember: *to get ahead of inflation, get behind the dollar!*

Stephen Barone, a children's psychologist, is a very small investor.



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The Politics and Personality of Chrysler's Baron

By Jeff Riggenbach

Iacocca: An Autobiography, by Lee Iacocca
New York: Bantam Books, 352 pp., $19.95

It is common knowledge that Lee Iacocca has an engaging manner and what used to be called the gift of gab—to say nothing of a positive genius for self-promotion. As one writer pointed out recently, "Not since the early part of the century, when tycoons like Henry Ford, J. P. Morgan, and John D. Rockefeller commanded headlines almost at will, has a businessman etched himself into the public's psyche quite like Iacocca."

He's everywhere. Selling Chryslers on television and radio and in newspapers and magazines. Begging for the Statue of Liberty. Winning a *Wall Street Journal* survey as the most-respected executive in America. Coming in a close second to Ronald Reagan in a Junior Achievement survey to determine which American leaders business-minded teenagers admired most. Many Americans, myself included, find Iacocca considerably more personable and congenial—politics aside—than the supposedly irresistible Ronald Reagan.

But of course it's impossible to put politics entirely aside when you're talking about Lee Iacocca, for there never was a more deeply and incorrigibly political animal than he. Far and away his greatest achievement as chairman of Chrysler Corporation has been his lobbying for government favors for the company.

Little wonder, then, that rumors persist of Iacocca's secret plans to run for the presidency himself. He persists in denying these rumors, of course. But how can anyone believe him? As he himself points out, "Even the *real* candidates tell you that they're not running until they finally decide to go public with their ambitions." And far too many of Iacocca's activities are impossible to explain if we assume that he's merely a charismatic businessman who wants to sell cars. How except very indirectly does drumming up funds to fix the Statue of Liberty sell cars? How does addressing a meeting of House Democrats bent on finding a new agenda for the Democratic Party (as Iacocca did early in March) help to sell cars? Presumably the chief executives of General Motors and Ford want to sell cars too, but they don't publish autobiographies and devote the last few chapters to passing along their recommendations for American public policy.

Iacocca, however, has seen fit to give us *his* recommendations. In one chapter,

CHRYSLER CORP.

Lee Iacocca: "People are hungry to be led."

called "Public Man, Public Office," he even acknowledges that he "might enjoy being President." He goes on to list what he fancies are his qualifications for the job: "I'm a good manager. I can cut costs and make money and manage a large institution, and if there's anything I'm sure of, it's that. I know how to control a budget, and I've had experience in turning around a failing company."

Iacocca is convinced that these qualifications are in demand among voters. "Americans," he says, are "looking for a leader who can balance the budget as well as restore a sense of purpose to the country." Says Iacocca, "People are hungry to be led."

Moreover, he says, "our national leadership consists of too many lawyers and not enough people from business. I'd like to see a system where we brought in twenty top managers to run the business side of the country and maybe even paid them $1 million a year, tax-free. That would be a real incentive, and then we'd see a lot more talented people interested in public life."

Immediately, at the first mention of that tax-free million, a lightbulb goes on over the reader's head—over this reader's head, anyway. Could it be that Iacocca would be interested in the presidency if it paid better? He says he stayed on at Ford long after he'd worn out his welcome there because he "found it almost impossible to walk away from an annual income of $970,000." And he says the "humiliation" that pushed him to take on the chief executive's job at Chrysler in 1978 was being assigned to a small cubicle of an office in a dingy warehouse during his last days at Ford (he'd been forcibly removed from the presidency of that corporation by that time).

As Iacocca points out, he was used to far better than that. "Only yesterday," he writes, "I had been working in the lap of luxury. The office of the president was the size of a grand hotel suite. I had my own bathroom. I even had my own living quarters. As a senior Ford executive, I was served by white-coated waiters who were on call all day. I once brought some relatives from Italy to see where I worked, and they thought they had died and gone to heaven." I'll lay odds that Lee Iacocca would run for the presidency of the United States in half a minute if he could have that tax-free million-a-year as his salary.

And if he ran, what would be his platform? As he spells it out in his autobiography, his platform would have six points. First, we should impose heavy taxes on gasoline so that Americans will buy more of the sorts of small, fuel-efficient cars that Lee Iacocca now manufactures. Second, we should set specific upper limits on Japan's market share in the automotive industry—again, so that Americans who want small, fuel-efficient cars will have to turn to Chrysler for them, rather than buying

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FINANCIAL REFORM IN THE 1980s

Thomas F. Cargill and Gillian Garcia

Since 1979, the American financial system and the conduct of monetary policy have undergone significant restructuring. The four most significant reforms are: the announcement in October 1979 that the Federal Reserve was changing its operating strategy; the announcement the following February that the money supply was redefined; the Depository Institutions Deregulation and Monetary Control Act (DIDMCA) of 1980; and the Garn-St Germain Depository Institutions Act of 1982.

These reforms are as sweeping as those of the Great Depression in their effect on the financial system and the conduct of monetary policy.

This study provides a detailed review and analysis of the major changes through early 1984. The financial reforms of the 1980s are placed in historical context by reviewing the major objectives of financial regulations, the history of American financial reform, beginning in 1776, and the forces that emerged in the 1960s and 1970s that have generated the recent reforms.

Reviews of Cargill and Garcia's previous study, *Financial Deregulation and Monetary Control: Historical Perspective and Impact of the 1980 Act.*

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THE FLAT TAX

by Robert E. Hall and Alvin Rabushka

In his 1985 State of the Union Address, President Reagan called for tax simplification, calling it a "giant step toward unleashing the tremendous pent-up power of our economy."

The tax simplification plan presented in *The Flat Tax* is "radical, yet thoroughly practicable," according to Nobel Laureate Milton Friedman, and is "one of the most detailed proposals," according to the Director of the Congressional Budget Office.

The Hall-Rabushka plan has one basic principle: "income should be taxed exactly once, as close as possible to the source of that income"; and a corollary: business and individual income taxes must be integrated.

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The Hall-Rabushka proposal is one of a number of tax-reform proposals currently under debate. The last chapter of *The Flat Tax* presents four other proposals (Bradley-Gephardt; Kemp-Kasten; The Brookings Institution plans; and a value-added tax scheme) and explains how the authors' plan is superior to each.

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THE DOOMSDAY MYTH
10,000 Years of Economic Crises

by Charles Maurice and Charles W. Smithson

Even after the success of petroleum deregulation, Americans continue to be told by self-styled experts that "diminishing resources threaten global disaster—doomsday—in the not-too-distant future." These prophets of doom assert that the marketplace—the "invisible hand" of classical economics—can no longer be trusted to eliminate resource shortages.

Maurice and Smithson show that although doom merchants have been predicting imminent collapse from resource shortages as long as civilization has existed, whenever free markets have been permitted to function, resource crises have been eliminated, and doomsday has been averted. The authors make this argument accessible to a wide range of readers through a nontechnical and often humorous description of resource crises the world has faced and solved throughout the centuries.

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THE GREAT DEPRESSION, 1929-1938
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by Christian Saint-Etienne

Christian Saint-Etienne draws on new sources in economics to analyze the Great Depression, emphasizing the economic policy mistakes which were made and could have been avoided. The second part puts the contemporary economic situation into perspective, by considering the evolution of the major OECD economies in the 1960s and 1970s. Then the author presents a set of explanations of the economic difficulties at the beginning of the 1980s in the West and in developing countries and assesses the likelihood of a new Great Depression occurring in this decade. Stressing the importance of decisionmaking and the role of the price system in allocating scarce resources in a world of uncertainty, the author concludes with three necessary conditions for future growth: (1) protectionism cannot be allowed to develop; (2) the international banking system must be reformed; and (3) the monetary policies of the major industrial countries must be coordinated.

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them from Nissan or Honda or Toyota. Third, we should "face reality on the costs and funding mechanisms for federal entitlement programs," whatever that means. (Perhaps it means nothing more than that Lee Iacocca has a talent for the sort of meaningless doubletalk in which politicians specialize.) Fourth, we should subsidize the education of engineers and technicians—the kinds of people Lee Iacocca needs to hire at Chrysler. Fifth, we should subsidize research and development and factory modernization "in critical industries" such as the one Lee Iacocca works in. And sixth, we should rebuild our crumbling infrastructure, so that Americans will have good roads and bridges on which to drive Lee Iacocca's cars.

Since this book is called an autobiography, it doesn't devote all its many pages to political matters. A little over half of it is given over to a not-at-all-unpleasant recitation of the main points of Iacocca's business career. (As I said, the man has an engaging manner and the gift of gab. When he isn't talking about politics, his book is highly entertaining and readable.)

Iacocca was born in the '20s, the son of a successful and affluent Italian immigrant who lost everything in the Great Depression. He excelled in school and went off to Lehigh University and then Princeton to study engineering. He then took a job with the Ford Motor Co.—the only employer he ever had until he went to Chrysler. He worked his way to the top during the quarter-century between World War II and the early 1970s, by helping to create several of Ford's biggest successes, most notably the Mustang, the Mercury Cougar, and the Continental Mark III. He also helped to create the infamous Interlock seat-belt system that disfigured American cars for a couple of years a little over a decade ago.

To this day, Iacocca travels around the country lobbying state governments to make seat-belt use mandatory. He likes the idea of building every car with "a special light...that would show green when you're wearing your seat belt and red when you're not. Whenever your light showed red, you would be fined." He thinks an attractive refinement of this system would be "something similar to a radar gun, where the police don't even have to stop the offending car: they just send the driver a ticket in the mail."

Iacocca emerges from the pages of his book not only as a rather authoritarian personality but also as an astonishingly uneducated man. His grasp of history is shaky and utterly uncritical. He hasn't the foggiest notion what true laissez-faire economics is—he thinks Ronald Reagan espouses it. And his command of economic theory is most conspicuous by its absence.

Moreover, he emerges from his book as a startlingly uncouth and vulgar individual. He dismisses the arguments of those who objected to the government bailout of Chrysler in 1979 as "bullshit." He dismisses the Ford Motor Co. as "a chickenshit outfit." He informs us that when he took over Chrysler and discovered how bad the financial situation at that company really was, he felt "lower than whale shit." And he tells us that when he won his first election, in a ninth-grade bid to become student body president of his school, "I thought I was hot shit." Whatever one might think of Iacocca's apparent preoccupation with excrement, one has to admit that Henry Ford II had a point when he told the press after Iacocca's firing that his former president "lacked grace."

Grace, and a few other things as well, as we have seen. It is understandable

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that the American public should have taken Lee Iacocca so much to its heart, for the public typically judges individuals by their personalities, without bothering to look more deeply into their character and convictions. But it is profoundly to be hoped that the American public resists any impulse it might feel to place Iacocca in the White House.

Jeff Riggenbach is the daily economics commentator of CNN Radio and the executive producer of Perspective on the Economy, *the Reason Foundation's nationally syndicated daily radio program.*

Order and Disorder: The Postwar Monetary System

By Alan Reynolds

From Bretton Woods to World Inflation, by Henry Hazlitt
Chicago: Regnery Gateway, 179 pp., $10.95

A sampler of Henry Hazlitt's lively essays written from 1934 to the present, *From Bretton Woods to World Inflation*, offers prophetic insights into the rise and fall of the postwar international monetary order. That monetary order, called the Bretton Woods system, writes Hazlitt, "put an excessive burden and responsibility on one nation" and "assumed that the American managers, at least, would always stay sober." The system provided that only the dollar was to be "convertible on demand into a definite and fixed quantity of gold," and only foreign central banks were to be granted that guarantee. Foreign countries were supposed to adjust their economic policies to keep their currencies tied to the dollar and thus to gold.

In the Vietnam era the system was strained as people exercised an indirect influence over the quality of money. Excess dollars were loaned, spent, or invested abroad, where they were ultimately exchanged for local currencies. Foreign central banks thus found themselves with a growing mountain of dollars and began to ask for gold. Just as the Federal Reserve had perversely tightened in the face of gold inflows in 1920 and 1929, the Fed now refused to tighten in the face of prolonged gold outflows in the 1960s. Instead, the outflows were "sterilized"—while the Treasury mopped up surplus dollars at the gold window, the Fed kept adding dollars at the open market desk. Such procrastination was made possible by running down the huge gold stockpile at Fort Knox and later by pressuring foreign governments not to exchange dollars for gold.

Under the monetary system, inflationary policies overseas, fueled by excess dollar reserves, could be papered over for too long with International Monetary Fund (IMF) loans, or with bank loans encouraged by the prospect of IMF bailouts. Writing 40 years ago, Hazlitt prophesied that "the proportion of bad loans and defaults seems certain to be high, under the Bretton Woods regime." He was mainly concerned that there would be "no provisions for applying the corrective to wrong policies of debtor nations." What is now happening instead is that the IMF often insists on wrong policies—perpetual devaluations, punitive tax rates, protectionism, price controls, and encroachments on property rights.

At times, Hazlitt seems to suggest that

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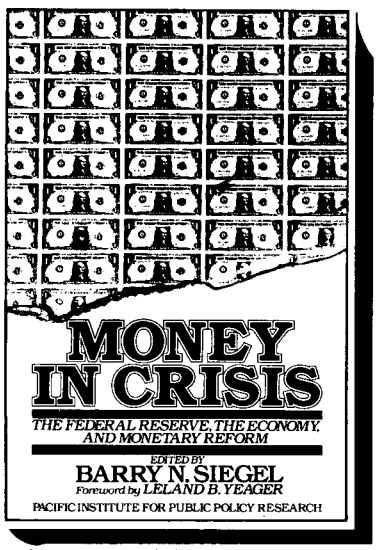
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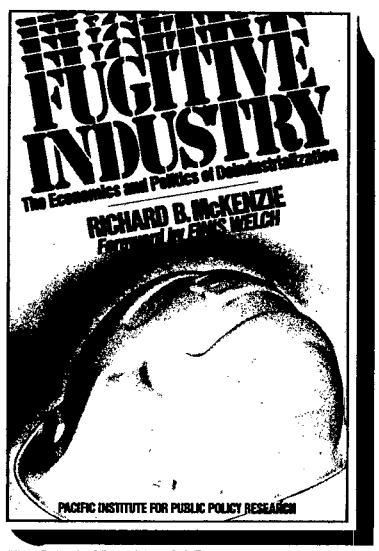
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sound money always requires a literally balanced budget. A lengthy 1944 essay, however, correctly points out that government borrowing need not jeopardize a gold standard, so long as people believe the debt can and will be honestly serviced. Austrian economist Ludwig von Mises went further, saying that government borrowing from the public (not the central bank) is "irrelevant to the treatment of monetary problems."

As Hazlitt writes, "monetary chaos and world inflation could have been stopped, or at least greatly diminished," even as late as 1969 or 1971. Raising the discount rate to 6 or 7 percent might well have stopped the flight from dollars—ironically, such an interest rate sounds low today. Even if the dollar had to be devalued, with gold at $70 to $100, that would have been far less inflationary than letting the dollar collapse until gold was $800 an ounce. The $35 rate established under the Bretton Woods system had survived three major wars, after all, which would strain any monetary system.

Hazlitt, like Mises, was equally intolerant of deliberate deflation, as well as inflation. "Trying to force down prices and wages from the level they have reached," wrote Hazlitt, "may result in economic stagnation, in unemployment, in a throttling of production." In 1949, when the British pound collapsed as abruptly as it has recently, Hazlitt observed that the rising dollar, "by lowering the dollar price of imported commodities and forcing reductions in the dollar price of export commodities...will increase our problems." Indeed, US wholesale prices dropped 10 percent in that recession, though service prices kept rising by 5 percent.

By 1971, even Hazlitt threw in the towel, urging that "the U.S. should openly announce that it can no longer convert dollars into gold at $35 an ounce. It owns about $1 in gold for every $45 paper dollars outstanding." That comment reflected a common confusion, in which saving "our" gold reserve or "backing" is supposedly more important than maintaining convertibility. Yet the gold standard did not exist for the purpose of filling Fort Knox; instead, the only purpose of gold reserves was to defend the standard. Only currency was convertible, so the 45-to-1 ratio vastly exaggerated the issue, even at a $35 price, by including even time deposits (why not add bonds?). Consider, for example, the situation of private bankers. They are obligated to convert demand deposits into currency, but they do not need a dollar of currency in the vault for every dollar of deposits. The currency monopolist (the Fed) does not need a 100 percent reserve either. As currency is exchanged for gold, the value of remaining currency is strengthened, so the process is self-limiting. A huge gold hoard just fosters procrastination.

To favor floating money is to favor floating prices and floating contracts. There can be no free market in nationalized currencies, because central banks have monopoly control over currency and bank reserves.

What killed the Bretton Woods monetary system was an idea, and that idea had seduced Hazlitt, as it had the rest of us, by 1971. He wrote that "paper currencies should be allowed to 'float'....the daily changes in prices will serve as early warning signals...to the managers." But Hazlitt had it right the first time, in 1934, when he wrote that "there is no more a 'natural value' for an irredeemable currency than there is for a promissory note of a person of uncertain intentions to pay an undisclosed sum at an unspecified date."

To favor floating money is to favor floating prices and floating contracts. There can be no free market in nationalized currencies, because central banks have monopoly control over currency and bank reserves. The issuers of currency must define and guarantee their notes in terms of some generally accepted tangible asset, or the value of those notes will gyrate unpredictably in terms of commodities and foreign currencies. The value of fiat money is simply a matter of opinion, so it is inherently unstable.

For all its faults, the gold-dollar foundation of Bretton Woods provided far more predictable money than the chaos that followed when President Nixon severed the gold-dollar link in 1971. Industrial commodity prices varied cyclically, for example, but were the same in July 1971 as they had been 20 years earlier. The growth of world trade and output before floating was twice as fast as it has been since. Even in the late 1960s, when the United States had abandoned most institutional constraints on the Fed and the foxy Soviets were actually importing gold, the uncertain gold hedge behind dollar assets still continued to keep long-term interest rates near gold-standard levels of 4-5 percent.

It is possible to learn from the mistakes involved in creating the Bretton Woods system and from the greater mistakes in discarding Bretton Woods. This book is a good place to begin the reconstruction. Anything by Hazlitt is worth reading at least twice, and this is no exception.

Alan Reynolds is vice president of the economic consulting firm Polyconomics.

Politics Is Perception

By Arnold Steinberg

Of Politics and Economic Reality, by Amar Bhide
New York: Basic Books, 224 pp., $15.95

If politicians are corrupt, then why not, as economist Milton Friedman once mischievously suggested, auction political office to the highest bidder? In this way, free-market competition would drive up the price of holding office (to an amount approaching, but less than, the anticipated profits from political corruption). Proceeds could go to the state's general fund, rather than to television and radio stations, printers, political managers, and pollsters (like me).

In fact, the problem is *not* that most politicians are crooks. Thieves can steal only so much. In contrast, systematic expropriation (that is, as a matter of public policy) overwhelms us, as politicians curry favor by redistributing wealth to a

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myriad of special interests.

Amar Bhide's thesis, spelled out in *Of Politics and Economic Reality*, is "that Western governments have not really been pandering to their electorates' short-term needs (as many critics of government decisionmaking argue) and that politicians have failed to realize how sound economic policies can also be popular." If Bhide means by sound economic policies those that allow the free market to work (and I'm not sure that he does), then he means that libertarianism, which staunchly supports such policies, can now win elections, which it cannot (maybe someday, but not now).

He points to public disenchantment with government, such as the increasing percentage of those who believe government is "pretty much run by a few big interests looking out for themselves." But big-government politicians and limited-government politicians *both* cite public disenchantment. So should we argue whether nonregistered or stay-at-home voters are turned-off libertarians who want government to do less, or poor people who want government to do more?

Many people are distressed by the National Education Association (NEA) or the farm subsidy program or the Export-Import Bank. But teachers who oppose tobacco subsidies support federal aid for education, and business executives who criticize education boondoggles lobby for taxpayer-guaranteed, low-interest loans for exports. Voters who oppose special interests do not see *themselves* as a special interest.

Candidates flatter the voter by appealing to his or her "common sense." But voters *are* uninformed, usually by choice: they are lazy or feel helpless or consider other pursuits more important or some combination. Bhide criticizes those of us who say politicians can be marketed, like detergents, through TV ads. Drawing an analogy between political candidates and expensive stereo systems or automobiles, Bhide argues that neither can be sold like soap. But autos *were* sold like soap for many years in this country, with General Motors seeking product differentiation through TV advertising, just as Procter & Gamble seeks to differentiate similar soap products. Candidates, too, are like undifferentiated products seeking identity. Without issues, they win on the basis of personality.

What Bhide's work lacks is a grasp of the real political world. Consider a few examples.

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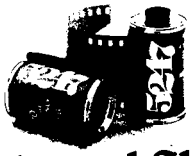

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Says Bhide, "Spending projects . . . *do* have political costs: the taxes needed to pay for the expenditures alienate voters even if they do not directly associate their higher taxes with the spending projects." What Bhide overlooks is that political costs are aggregate (people *are* willing to pay their "fair share"—whatever that means—of taxes). Benefits, however, are perceived as individual (people generally will not oppose a program seen, rightly or wrongly, as in their own self-interest, if "someone else" is paying). Thus, Los Angeles taxpayers will continue to support an absurd Metro subway system if the federal government will foot the bill. But they will oppose it if they have to pay for it entirely themselves. Moreover, many voters are inconsistent—wanting lower taxes *and* more programs.

Bhide also asserts that "more spending did win votes at the time of the New Deal, but it doesn't any longer." In fact, the Democratic platform of 1932 was to *cut* spending; and political rhetoric, more often than not, has been either (*a*) to limit or cut spending or, more precisely, (*b*) to limit or cut *their* spending; that is, spending for programs that benefit others, but not spending for one's own favorite government program. Gary Hart talked Bhide's line, but were Hart and Mondale really significantly different? What about the liberals who expediently argue that we simply need to make the welfare state more efficient? Bhide is right about one thing—politicians don't argue in favor of government waste.

On another point, Bhide claims that "if spending had no political costs, fiscal conservatives would find it nearly impossible to dislodge free-spending governments . . . . [But] many profligate politicians have been trounced." What about the role of style, personality, or effectiveness of campaign advertising? Big-spender US Sen. Alan Cranston stays in power because he gets plenty of favorable news coverage, provides effective "constituent service," and has been blessed with weak opponents. Bhide ignores that *perception*, not reality, controls. Even if his thesis about the rejection of big-spending politicians were correct, observe that such politicians mail (at public expense) newsletters that headline their (contrived) budget cutting. My surveys show that voters who believe that the (big-spending) US Congress is doing a poor job also believe *their* (big-spending) member of Congress is doing a *good* job.

Bhide goes on to argue that "where . . . spending is so high that the majority of voters, including all the middle class and many poor, feel oppressed by their taxes . . . public spending [is in a] 'failure-zone.' " He seems to forget that the poor are less likely to vote. Moreover, while they may pay imputed taxes (the tax burden as passed to them in the price of goods or services), they do not make such a calculation. Nor do they perceive sales taxes as regressive to them. Again, Bhide does not understand that although programs such as welfare, for example, may be unpopular in principle, voters do not consider their favorite projects to be welfare.

Of so-called failure-zone spending, Bhide says, "since voters don't like (even accidentally) to be robbed by a misguided Robin Hood or bullied by a Big Brother, failure-zone spending is obviously not rational." However, Bhide again forgets that politics is perception, not reality. (And most voters do favor the graduated income tax.)

Bhide summarizes his conclusions in terms of their significance for politicians: "Whereas politicians of twenty years ago could hope for only modest ad-

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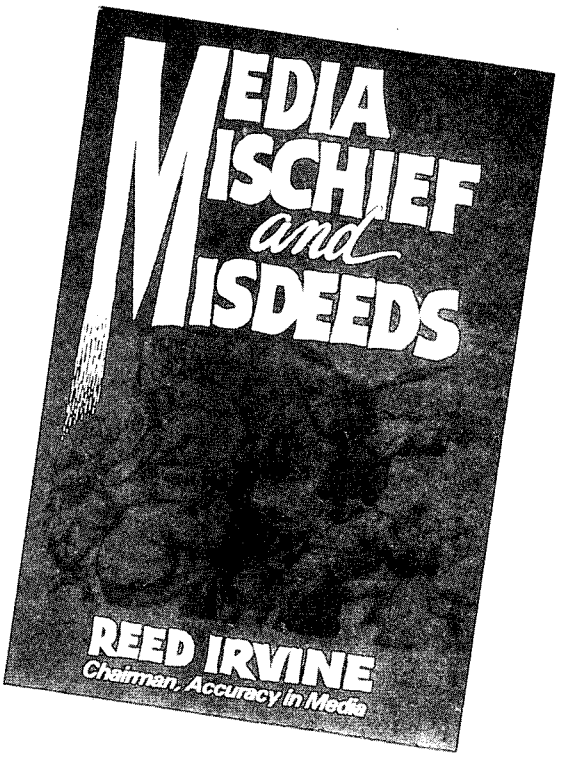

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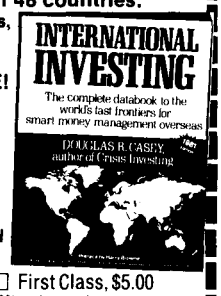
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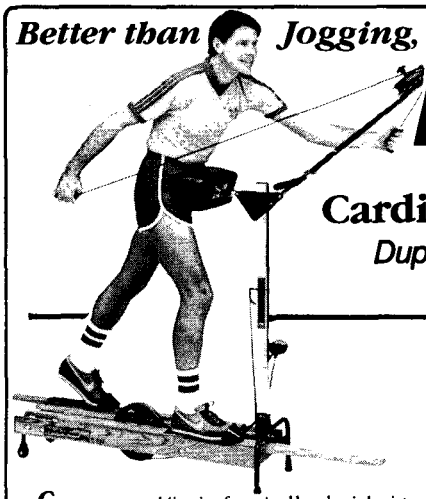

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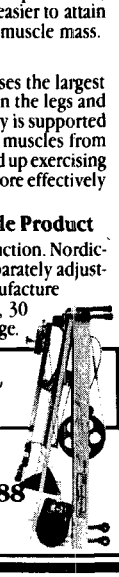

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vantages by changing the level of spending, politicians today can expect major payoffs if they can satisfy the electorate's hunger for real reductions in their tax burden." However, surveys indicate that voters *are* willing to support tax hikes to pay for programs they like or, in some cases, in order to cut the federal deficit. In another section, Bhide also confuses voter dissatisfaction with property taxes (as evidenced in the passage of Proposition 13 in California) with dissatisfaction with taxes in general; my own surveys show substantial support for a "split-roll" concept, in which businesses pay sharply higher taxes than individuals.

Making specific recommendations in light of his overall thesis, Bhide argues that "radical cuts should be made in unemployment and sickness benefits since these provide the least benefit to most voters." He forgets that they *do* provide benefits to those who get the money, and recipients of these benefits will not give up without a fight. Also, voters who empathize with those believed to be the "truly needy" will oppose such cuts. Bhide does not understand that wishing will not make it so. Furthermore, he neglects the point made by Milton Friedman, among others, that each special interest fights aggressively to protect its own programs, while the rest of us are spread thinly in opposition to the countless programs that don't directly benefit us.

"To get spending out of the failure zone," says Bhide, "welfare *has* to be cut." But just what does Bhide mean by welfare? Some of us might include entitlements in welfare, but Americans do not include Social Security, Medicare, veterans benefits, etc., in that category.

Bhide lectures us ("public services cannot be given away to win votes") and tells us the obvious ("protectionism is a stultifying force") and speaks down to us ("monetary policies have a major impact on the economy and on the pocketbook of voters"). Nowhere, however, does he come to grips with the tragic political reality that politicians are too liberal, too cynical, or too dumb to consider the long-term economic consequences of short-term political actions. Henry Hazlitt taught us years ago that people (voters) are more likely to see the short-term benefits than the long-term costs. Politicians, like elections, are for the short term, and that's the problem, not the solution.

Arnold Steinberg is an independent political consultant.

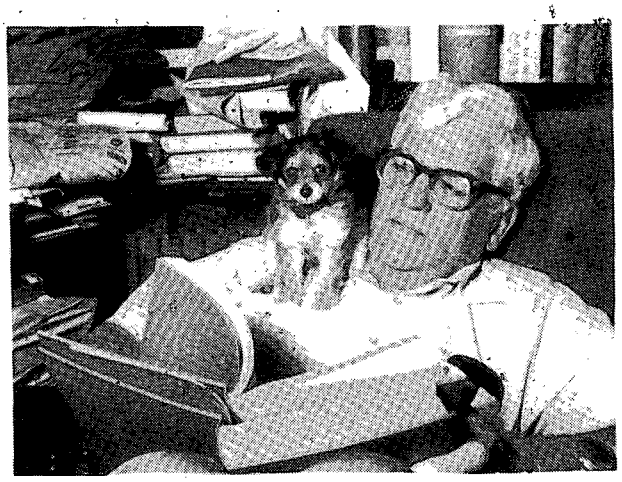
A Visit with Percy

Percy Greaves, economist, author, lecturer, Pearl Harbor expert and Free Market Book publisher, died on August 13, 1984, just short of his 78th birthday. When Robert L. Bradley, Jr., a young "Austrian" economist, heard the news, he wrote a short tribute to Percy, whom he had met several years before.

As a college student, Rob had attended a Foundation for Economic Education seminar in Irvington, NY. He had already read quite a bit on free market theory and so, as he put it:

> I was not wholly unprepared for the exhilarating intellectual experience. . . . In the week-long program, I received my first glimpse of the big picture of economics. . . . These moments of first discovery, alas, can only be experienced once. But the highlight of that week was a special invitation, reserved for promising students of the seminar, to visit in the home of Percy L. Greaves, Jr. to discuss economics.
>
> I do not remember distinctly what questions I asked, only that I learned a great deal of economics in one evening. I remember also my genuine excitement at the opportunity to pick the mind of a learned disciple of Ludwig von Mises.
>
> Percy emphasized the orderly nature of free markets and the detrimental unintended consequences of government intervention. He discussed the role of monetary manipulation in the business cycle and the Great Depression, a "specialty of the house." He stressed the importance of precise terminology to distinguish purposeful human action, the subject of economics, from mechanistic "man" of neoclassical economics. (You would no more use natural science metaphors such as "equilibrium" or "model" in Percy's presence than a profanity before a minister.)
>
> Now that Percy is gone, students will no longer be able to discuss economics intimately with him. They can no longer enjoy the opportunity of having economics "come alive," as it did for me when Percy presented Misesian insights to explain complex social phenomena. However, they can still read his *Understanding the Dollar Crisis*, and profit from his glossary for Mises' HUMAN ACTION, *Mises Made Easier*, as well as his various short pieces. It is up to the younger Austrian economists, quite a few of whom are alumni of "visits with Percy," to carry on the Misesian tradition.

Percy was a long-time, serious and devoted student of the late Ludwig von Mises. He attended Mises' New York University graduate seminar regularly for 19 years. His *Understanding the Dollar Crisis* simplifies the teachings of Mises and, according to Henry Hazlitt, "admirably meets [the] need [for] a book of intermediate length to introduce readers to a full appreciation of the Misesian principles and insight." His glossary, *Mises Made Easier*, defines all the less common words and terms and gives translations of all foreign phrases in Mises' HUMAN ACTION. Although persons interested in free market ideas can no longer enjoy personal "visits with Percy," they can still visit through his writings and his audio-taped lectures. See the order form below.



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A Vote for Workplace Democracy

By John McClaughry

***Workplace Democracy and Social Change*, edited by Frank Lindenfeld and Joyce Rothschild-Whitt, Boston: Porter Sargent, 412 pp., $20.00/$12.00**

***Worker Participation and Ownership: Cooperative Strategies for Strengthening Local Economies*, by William Foote-Whyte et al., Ithaca, N.Y.: Institute for Labor Relations Press, 142 pp., $10.00 paper**

"The man of virtuous soul commands not, nor obeys," wrote the 18th-century poet Percy Shelley. "Power like a desolating pestilence pollutes whate'er it touches, and obedience, bane of all genius, virtue, freedom, truth, makes slaves of men, and, of the human frame, a mechanized automaton."

Such might well appear as the introductory motto of *Workplace Democracy and Social Change*, edited by Frank Lindenfeld and Joyce Rothschild-Whitt. The volume presents a rich and varied collection of 21 chapters, ranging from the clinically academic to the journalistic to the politically polemic, devoted to the subject of worker control over the conditions of production. This is a timely volume. For over the past decade, long-silent voices are once again starting to be heard, calling for the liberation of the human spirit through a radical reconstruction of the conditions of work.

The basic question addressed by the workplace-democracy movement is no less fundamental for having been suppressed by the establishment for the past 40 years. That question is, simply, who shall "control the conditions of work, the kind and variety of work done, the pace of work, and the product of work—in short, control over the whole labor process"? Shall work be organized hierarchically, where persons in authority give unchallengeable orders to subordinates? Or shall work be organized democratically, where all participate in the making of decisions and the performing of essential tasks? And if work is to be organized democratically, can production efficiency be improved upon, or at least maintained at the level of traditional economic organization?

The ultimate goal of the workplace-democracy movement is not merely to humanize the workplace or improve the quality of working life, to use phrases currently popular with well-read managers. It is "nothing less than the establishment and spread of a democratic economic sector . . . (accompanied by) a nonsectarian political movement dedicated to breaking up economic concentration and vesting a greater degree of control over productive facilities and service organizations in communities, municipalities, workers, and consumers."

This movement is anticapitalistic in the sense that it rejects what passes for the system of modern capitalism now in existence. "Neither the workers' councils, nor the factory or shop committees, nor the workers' power they stand for can prevail," declares revolutionary anarchist Andre Gorz, "unless the political power of capitalism is broken, unless the capitalist state itself is overthrown and the capitalist relations of production and division of labor are abolished. The struggle for workers' control must either

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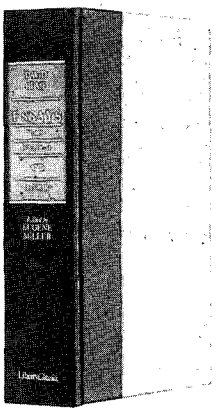

ESSAYS
MORAL, POLITICAL, AND LITERARY

By David Hume
Edited by Eugene F. Miller

This Liberty*Classics* edition contains the thirty-nine essays which were included under the title *Essays: Moral, Political, and Literary* in the 1777 posthumous edition of *Essays and Treatises on Several Subjects*. It also includes ten essays which were withdrawn or left unpublished by Hume for various reasons.

Professor Miller has based this new edition on the edition of 1777. He has added editorial notes to explain Hume's many references and allusions which would be unfamiliar to most modern readers. A glossary is provided to clarify 18th Century uses of terms which might otherwise prove confusing. A listing of variant readings is also included.

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develop an all-out attack against all forms of hierarchy, against all forms of monopolization of power and of knowledge, against all forms of domination and bureaucracy, including the so-called socialist state bureaucracy, or else whatever power the workers have won in action within the factories will be broken and rendered meaningless in a very short time."

And yet with the possible exception of Paula Giese's caustic description of the bourgeoisification of the old-line cooperative movement, *Workplace Democracy and Social Change* is not a Marxist tract. There are no demands for expropriating the expropriators, no paeans to the vanguard of the proletariat, not even a demand for government mandating of workplace democracy. In the tradition of 19th-century anarchists Pierre Proudhon and Petr Kropotkin more than Karl Marx and V. I. Lenin, the contributors, despite Gorz's outburst, seem to wish to create a peaceful economic revolution that will undermine the idea of authority in the workplace itself.

Such a revolution will not be easy—indeed, Giese says darkly that it will not be quiet or peaceful, either. One obvious reason for the difficulty is the hostility, whether knowing or inadvertent, of government. The book is replete with examples of hopeful worker collectives dragged down either by the deliberate prejudicial application of state power or by the total inadequacy of statutory law to deal with novel forms of economic organization.

Another major enemy—and here is where workplace democrats differ from much of the Old Left—is the union movement. Labor, as represented by union leaders, long ago made an implicit pact with Capital. It is the business of Capital to provide investment, organize production, tell the workers what to do, and generate profits. It is the business of Labor to discipline and control the workers, preventing such disruptive events as wildcat strikes, plant occupations, and—horror of horrors—challenges to management's authority to impose "scientific management"—notably, line organization and the minute division of labor. The price of this cooperation, of course, is a recurring and formalized conflict over division of the spoils. It is a price that corporations have generally been quite willing to pay, it being easier to deal with a handful of money-wise union bureaucrats than with a bunch of hotheads who have their own ideas about how the place should be run.

But perhaps the greatest threat to workplace democracy comes from workers themselves. It is no small matter for a worker—particularly one with 10 or 20 years on the job—to change his or her attitudes in order to adapt to a radically different form of organization. Drawing on experiences in an astonishing range of experiments, the contributors are brutally realistic about these problems.

One of the advantages of orthodox workplace organization is a sharp definition of roles and little or no creative interaction with the supervisors who decide matters. An unstructured participatory workplace can cause problems of severe emotional intensity. Jane Mansbridge reports the prevalence of rage, tears, splitting headaches, and other real stress afflictions when workers or citizens are suddenly cast into an unstructured decisionmaking forum. The appearance of one or more tyrants, bent on dominating the group, also seems almost inevitable. Implementing workplace democracy is hard enough when everyone involved comes from a

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common cultural, ethnic, racial, or political background. Where the membership is heterogeneous, success can be close to impossible.

Then there is the seemingly inescapable problem of cooptation into the traditional system. For all the idealism of workplace democrats, workers, like people in general, seem to have a need to dominate some people and submit to others. The ideal workplace democracy requires a sort of permanent horizontal equilibrium where everyone is approximately equal, a condition unlikely to continue over a long period of time without some massive reorientation of consciousness or a quasi-religious sense of mutual commitment.

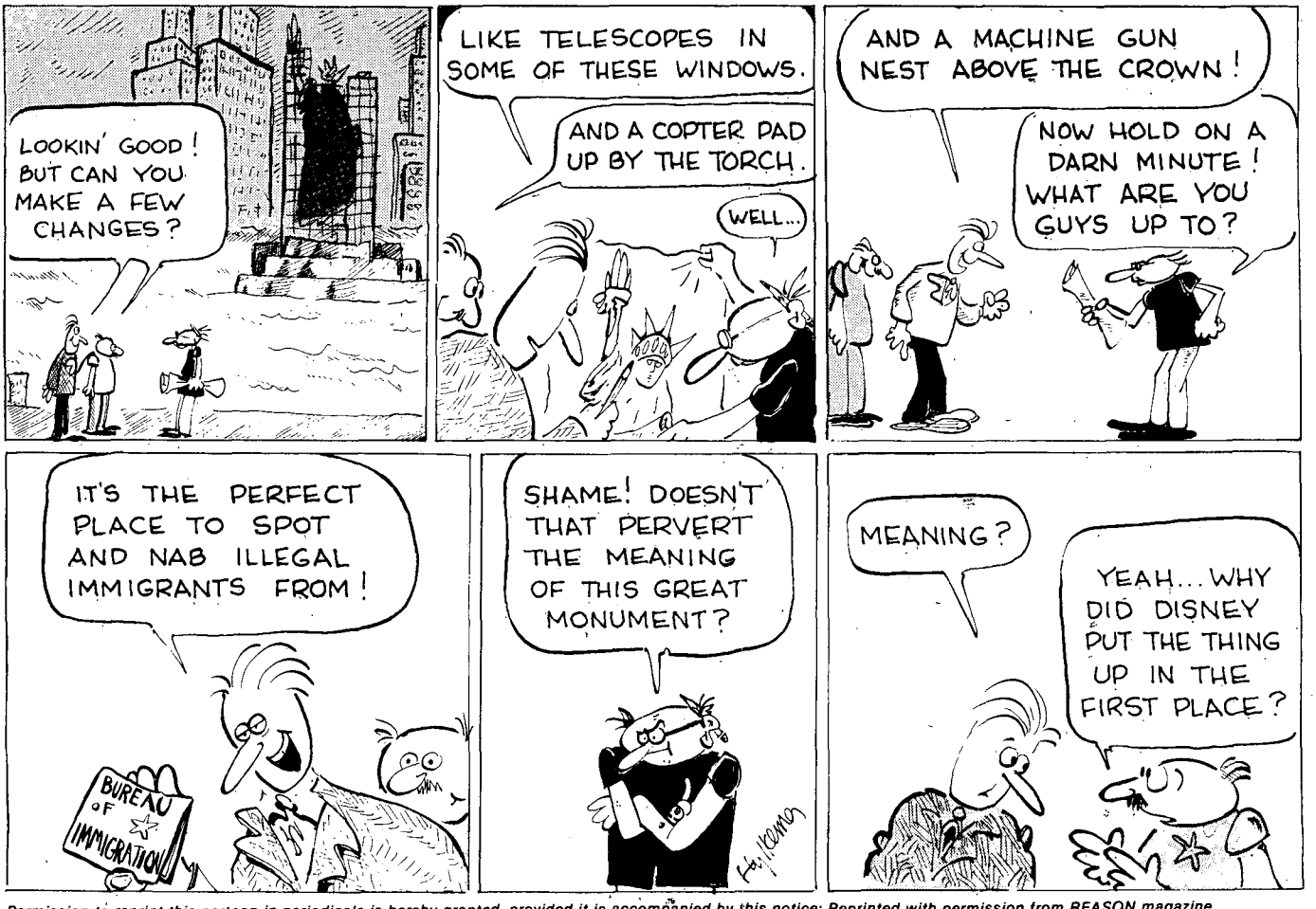
And yet there are examples that give hope. The plywood cooperatives of the Pacific Northwest are perhaps the best known in the United States. There, over 60 years, Katrina Berman reports that "they have shown that persons in their capacity as producers can establish industrial self-governance and democracy, maximize participation, humanize work on a factory production line, improve income equality, and release the forces of productive energy, craftsmanship and pride in achievement." Similarly, San Francisco's cooperative refuse companies have survived for 40 years and have given that city the best sanitation service of any city of that size in the country. And in the Basque provinces of Spain, an incredible, self-financed, multifaceted industrial and social empire known collectively as Mondragon, carefully described by Ana Gutierrez Johnson, has astounded industrial engineers, social psychologists, and economists alike for the past 30 years.

Will the workplace-democracy movement steadily overthrow hierarchical capitalism? The easy answer is no, if for no other reason than the fact that it has never proven possible to make workplace democracy work respectably in organizations with large numbers of workers (several hundred seems to be the upper limit). And yet it is obvious that there is some movement away from the traditional scientific-management economy, with its emphasis on hierarchy and specialization. Much of this movement is guided, not by political theory or industrial sociology dissertations or radical wall posters, but by a realization that some element of self-determination and participation makes happier and more satisfied workers, and such workers are more productive than serfs and drudges ordered about by bellowing foremen.

The recent proliferation of worker-owned plants, many as the result of abandonment by a distant conglomerate, may well create the testing ground for many of the theories of workplace democracy. *Worker Participation and Ownership*, a

rudebarbs

Randall K. Hylkema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product of an excellent research group assembled by William Foote-Whyte at Cornell, is a practical, nonideological treasure chest of incisive observation of the actual process of converting factories to worker ownership and of changing the roles of workers within those factories.

Where *Workplace Democracy and Social Change* aspires to the anarchist ideals of a world without domination and authority, the Foote-Whyte book eschews such inspirations to relate what really happens in conversions to worker ownership, why it happens, and what can be done to steer the safest path through this haunted forest. The various authors carefully set forth the who, what, when, where and, most importantly, why of the diverse approaches to worker control. For this reason the book should be high on the reading list of local plant managers, union stewards, chamber of commerce executives, and city officials, especially those facing the possibility of a plant shutdown.

What should the role of public policy be toward workplace democracy and employee ownership? At the very least, government ought to refrain from imposing obstacles, whether legal or institutional, to those wishing to experiment with new forms of workplace organization. This suggests revising incorporation, tax, labor, and security laws to give even novel types of cooperative efforts a fair chance at success. Government should also keep its police powers on a short leash, for when they are seized upon to tilt the scales in disputes among citizens of different interests and views, the era of tyranny has in principle begun. The laws should be shaped to encourage the widest distribution of genuine private property ownership, if for no other reason than that such ownership is in the last analysis essential to prevent a free republic from turning into an orgy of government redistribution and confiscation.

Finally, demands for some form of mandated industrial organization should be stoutly resisted, especially by those eager to expand the practice of workplace democracy. For it is precisely in such a regime, operated by bureaucrats at best and their pro-hierarchical antagonists at worst, that the innovators and creators of all kinds have the least to hope for.

John McClaughry served as a senior policy advisor in the Reagan White House. He is now president of the Institute for Liberty and Community in Concord, Vermont.

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Transportation Deregulation: The Benefits Roll On

With airline deregulation in 1978 and bus deregulation in fits and starts since then, it's a new marketplace in transportation. The well-known lower air fares for travelers aren't the only benefit. Bus fares, too, have come down in the new, competitive environment.

Ticket prices on Greyhound Lines, the nation's largest bus operator, have dropped by two-fifths since airline deregulation, *The Economist* recently reported. And with lower air fares drawing off long-haul passengers, "the average distance of a journey on Greyhound buses has fallen by two thirds." The competition has taken a considerable toll on the bus line: last year, Greyhound lost $1.4 million on its bus operations (though that loss was greatly offset by profits from other of the company's diversified operations).

But Greyhound's loss doesn't mean that bus service itself has suffered. To the contrary, some 2,000 independent—and profitable—bus lines have sprung up since airline deregulation to serve smaller communities that airlines found it unprofitable to serve in the deregulated climate.

Fortunately, Greyhound is responding to the new competitive pressure not by calling for reregulation but by restructuring its business. The firm is experimenting with franchising its operations to the new, independent carriers, offering them the use of the Greyhound name and facilities in exchange for a fee and a percentage of revenues—a market solution to a new marketplace.

Sales Tax Selling

With Washington debating a score of "flat-rate" income tax proposals that are actually far from flat, Bob Poole suggested in his April editorial ("Flatter Than Flat") that a far better alternative might be replacing the income tax with a sales tax. He is not alone in that view. The case for a national sales (or value-added) tax has been cropping up lately in noticeable places.

Economist Wassily Leontief, a Nobel laureate, argued in a recent *New York Times* op-ed piece for replacing the personal and corporate income taxes, "riddled with inefficiencies and fraud," with a general sales or value-added tax. Leontief, like Poole, pointed out that this would provide new incentives for savings and investment. And even though he is often considered a Keynesian liberal, Leontief attacked corporate income taxes as "inefficient" and said that they "fall ultimately on people."

In a *Wall Street Journal* letter to the editor, Michael Bazdarich, vice president of the Claremont Economics Institute in California, reiterated this view. "A truly efficient, non-distorting tax system would be one with no corporate income tax and no personal income tax," he said. Instead, it would feature a "personal consumption tax, which exempts saving from tax and taxes income of any type only when it is consumed."

Similarly, Emory University professor Peter Fong argued on the *New York Times* op-ed page for a 13 percent national sales tax. This would be "the fairest levy," he said, because "it taxes what you take from society (consumption), not what you contribute (earnings)." Unlike the mode of collecting income tax, a sales tax would be "pay as you go, anonymous and dossier-free."

Towering Decision

The Federal Aviation Administration (FAA) recently decided to contract out to private operators 130 of its air traffic control (ATC) towers at smaller airports. Fourteen will be contracted out this year, and the remainder will be turned over to private operators at a rate of about 15 per year.

In REASON's May 1983 issue, airline pilot John Doherty detailed how private ATC operators at a dozen airports throughout the country perform as effectively as FAA operators but at dramatically lower costs ("Towering

Don't Be Fooled By Impostors!

prac-ti-cal *adj.* Having reference to useful ends to be attained; applicable to use.
prag-mat-ic *adj.* Pertaining to the study of events with emphasis on cause and effect: the pragmatic method.

There are some libertarians who call themselves "*pragmatists*" and would have you believe that calling for "tax cuts," gradual reductions in government regulation and bureaucracy, and giving in to the public's statist prejudices are the "pragmatic" way to move toward liberty and freedom! **NOT SO!** Look again at the Funk & Wagnalls' Standard College Dictionary definitions—notice the phrases "cause and effect," "having reference to useful ends." Now think of how many years the Libertarian Party has **wasted** by putting out messages such as the ones given above. Isn't it time to move forward? Don't you really want to see liberty in your lifetime? So why are you wasting your time with approaches that have proven to be worthless? Subscribe today to *The Pragmatist* and learn the *truth* about pragmatic ways to get our movement going forward. Don't be fooled by impostors ever again.

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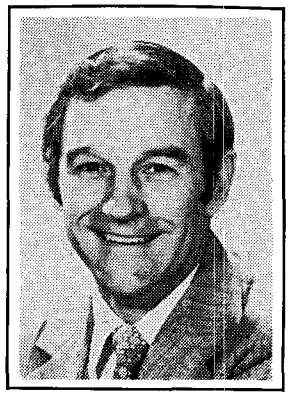
NEW MONEY?

Why are some in Washington planning a change in the money? How and when will it come and what will it look like? And perhaps most importantly, what will it mean for you, your pocketbook, and your freedom? Here's how you can find out!



RON PAUL

Ron Paul receives more inquiries on the Treasury's proposal to issue a new paper currency than on any other issue. This is because as a Member of Congress in October, 1983, he was the *FIRST* to reveal publicly the plans of the U.S. Treasury to introduce the new multi-colored currency which will replace the greenbacks now in our pockets. This new money will probably be put into circulation in 1985 or 1986.

Ron has maintained from the start that such a change should not come about without the approval of Congress, yet arrogant bureaucrats have made plans as if what Congress thinks is not relevant. He also believes that the change symbolizes the insidious nature of government control of money. It carries with it broad and possibly ominous implications for our economy and our personal liberties. In fact, a new currency could conceivably be the vehicle by which a zealous bureaucracy attacks the so-called "underground economy," without regard to the impact on your freedom and mine.

In order to answer the many questions about the new money, Ron Paul has recorded an in—depth interview now available on audio cassette tapes as well as in printed report form. To obtain either one, just fill out the order form and return it, along with your check or credit card information to Independence Press.

This question of the new money is just beginning to be reported and few Americans know of it yet. Through this interview, you can hear the full story of what it's all about.

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Entrepreneurs"). Indeed, an FAA spokesman told REASON that the agency expects private operation to save at least 25 percent on traffic control costs at the 130 targeted airports.

And More

■ *Computing the benefits.* Last fall, REASON reported on the growth of, and hostility to, computer home work ("Telecommuting: Will the Plug Be Pulled?" Oct.). Since then, the *Wall Street Journal* has reported a consulting firm's estimate that the telecommuter population could grow to 7.2 million this year. And in an interview with the newsletter *Telecommuting Review*, futurist Alvin Toffler—himself a former unionist—called the AFL-CIO opposition to telecommuting "criminally absurd." Soon afterwards, *Los Angeles Times* columnist Sam Hall Kaplan mentioned in a column that he was writing at home on his personal computer, and he wondered, "Am I violating the local zoning code that specifically prohibits a commercial use in a residential zone?"

■ *Bonds oversold?* Industrial-development bonds have been peddled in the Lone Star State as a panacea for unemployment and economic stagnation, but as Michael Berryhill reported last December ("How the Rich Get Richer in Texas"), they're ordinarily little more than an elaborate subsidy that benefits well-to-do Texans. Evidently, other states are having similar experiences. Oregon official Joseph Cortright recently testified that his state's 10-year-old bond program resulted in less than a third of the new jobs originally promised, while the state lost $1.4 million because of increased borrowing costs.

■ *No place like home.* Evidently taking a cue from British Prime Minister Margaret Thatcher and Rep. Jack Kemp (R-N.Y.) ("How to Change the Facade of Public Housing," Trends, Oct.), Fidel Castro's government has enacted a new law that makes renters of government housing into homeowners. Even Marxist-Leninists can evidently appreciate the virtues of private property on occasion. "Now the population, being homeowners, will feel more responsible for maintenance and repairs," government official Eugenio Balari explained to the *Los Angeles Times*.

Proof Silver Bargain!

During the past year coin collectors and investors have begun to discover and appreciate silver coins in Choice Proof condition. Franklin Halves in Proof condition have moved up 39.2%; the wholesale value of recent proof coins has increased an average of 51.9%.

It is not surprising that silver coins in Choice Proof condition have become so popular: silver is a beautiful metal, and proof coins represent the pinnacle of the mintmaster's art.

7 Reasons to Buy Proof Silver Washington Quarter

1—Condition: The most desirable of all Washington Quarters are Proof specimens, coins specially produced for the finest quality. Coin blanks are cleaned and polished to assure the sharpest impression. Dies are inspected to verify that they are perfect, then highly polished and wiped clean periodically during the minting process. The blanks are hand fed into the coinage press individually, and each coin is struck twice at slow speed with extra pressure to insure that utmost quality is achieved. The finished coins are inspected and sealed into special holders.

2—Commemorative: The Washington Quarter was originally intended to be issued as a Commemorative coin to help celebrate the 200th anniversary of the birth of George Washington. It proved so popular that it was made the regular issue quarter. It is the only commemorative coin in U.S. history to be made a regular issue.

3—Mintage: Washington Quarters in Choice Proof condition are frequently classified as "common coins," probably because so many were manufactured for circulation. In fact, nearly 4 billion silver Washington Quarters were struck. But less than 1% were struck in proof condition.

4—Underpriced: Franklin Halves in Choice Proof condition currently command a price of about $30. Franklins Halves contain exactly twice as much silver as Washington Quarters. The mintages are comparable. Yet Franklin Halves in Choice Proof condition sell for approximately 5 times the price as Washignton Quarters in the same condition. (See the chart below.)

5—Overlooked by Collectors: Mesmerized by the huge mintage-figures of circulation strike Washington Quarters, many collectors have assumed that it will always be available in Choice Proof condition. Just as collectors learned over the past year that the Franklin Half was scarcer than anyone imagined, collectors today are discovering the rarity and beauty of the Washington Quarter in Choice Proof condition.

6—Meltage: During 1979 and 1980, a huge quantity of U.S. silver coins were melted. Many observers believe that large quantities of Proof silver coins were melted, further reducing the available supply of Washington Quarters in Choice Proof condition.

7—Low Price: The Washington Quarter in Choice Proof condition is currently available at less than $5 per coin, an inexpensive coin by any measure. It is within the means of even the most modest collector—insuring its strong future demand.

COIN	DATE	CONDITION	MINTAGE	SILVER CONTENT	PRICE
Washington Quarter	1961	Proof	3,028,244	.18084	$ 4.40
Franklin Half	1961	Proof	3,028,244	.36169	27.50
Washington Quarter	1962	Proof	3,218,019	.18084	4.40
Franklin Half	1962	Proof	3,218,019	.36169	27.50
Washington Quarter	1963	Proof	3,075,645	.18084	4.40
Franklin Half	1963	Proof	3,075,645	.36169	27.50

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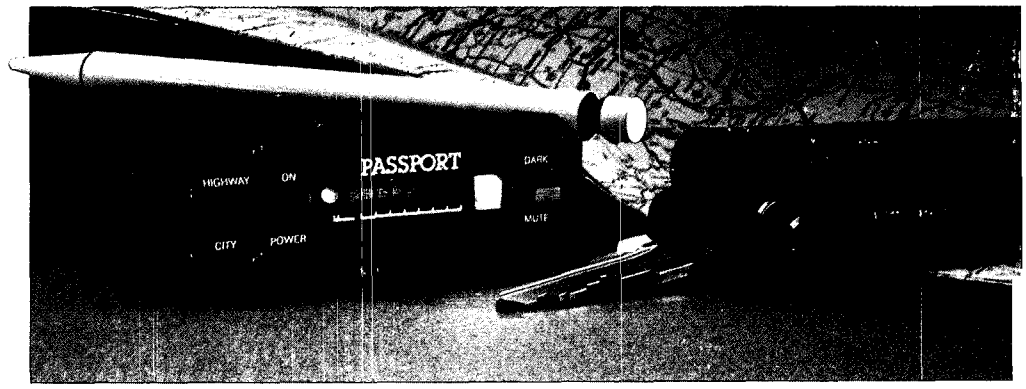

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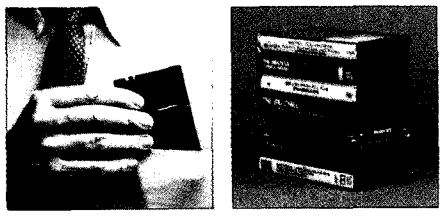

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